ITEM No …2………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 5 SEPTEMBER 2016**

REPORT ON: **RISK REGISTER**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **284-2016**

1 PURPOSE OF REPORT

This report updates the Risk Register for the Tayside Pension Funds.

2 RECOMMENDATIONS

The Sub-Committee are asked to approve the updated Quarterly Risk Register for the Tayside Pension Fund and Tayside Transport Pension Fund and note the following change to risk profiles:

Risk 12 - Failure to comply with LGPS and other regulations

This risk has reduced due to ever increasing staff knowledge and experience of the new career average scheme.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 INTRODUCTION

The Local Government Pension Scheme Management and Investment of Funds (Scotland) Regulations 2010 requires funds to state the extent to which they comply with guidance given by the Scottish Ministers.

The Scottish Ministers guidance refers to the six revised principles on investment decision making contained within CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles" (December 2009).

Principle 3: Risk and Liabilities (paragraph 98) states that "The annual report of a pension fund should include an overall risk assessment in relation to each of the funds activities and factors expected to have an impact on the financial and reputational health of each fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of residual risk".

The initial Tayside Superannuation Funds Risk Register (Article III of the Minute of Meeting of the Superannuation Sub-Committee of the Policy and Resources Committee of 21 February 2011, Report No 114-2011 refers) requires conformity with the Statements of Investment Principles for the Tayside Pension Fund and Tayside Transport Pension Fund. The risk register has in the past been reviewed annually. As per recommendations in a report by Internal Audit, review of the Risk Register is now reported on a quarterly basis.

5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues, other than Risk Management itself, which is addressed through the register.

6 **CONSULTATIONS**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

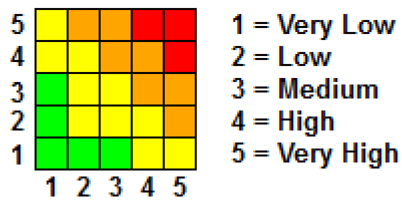
None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

Quarterly Risk Report

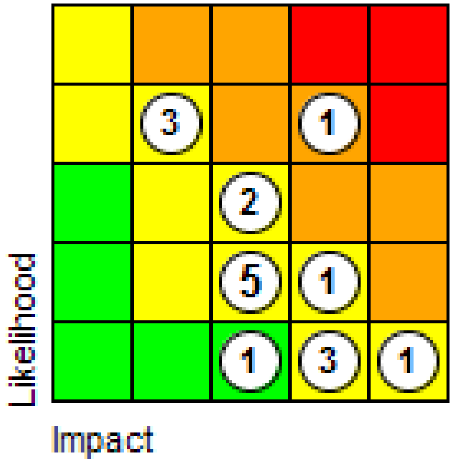
Report Type: Tayside Pensions Fund Risks Report
Report Author: Executive Director of Corporate Services
Generated on: 25 August 2016

Covalent Risk Matrix

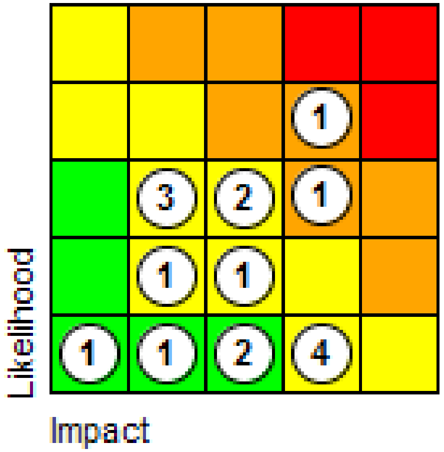


Total Risk Summary

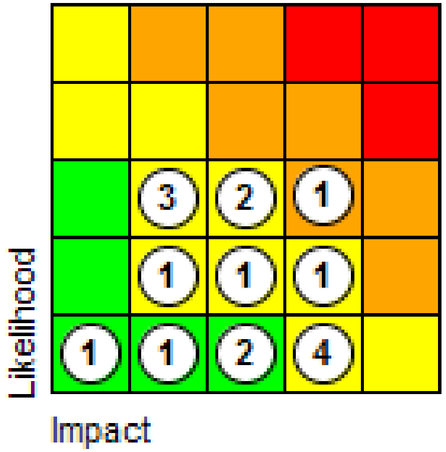
Inherent (Original) Risk

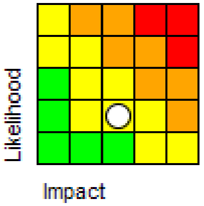
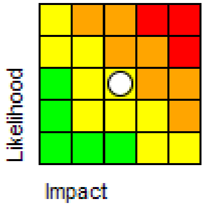
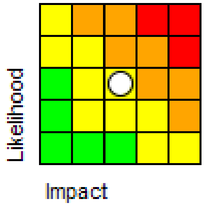
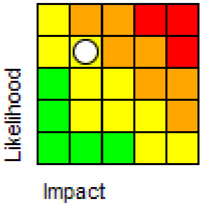
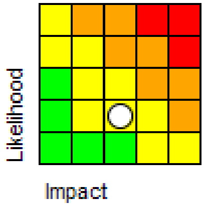
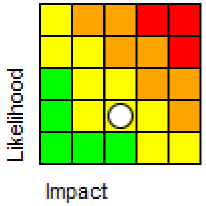


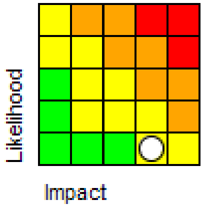
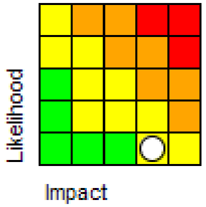
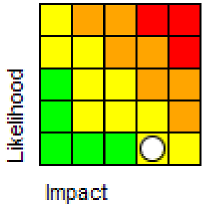
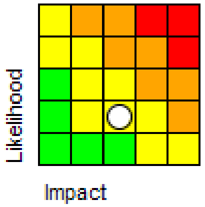
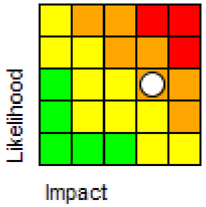
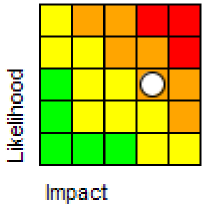
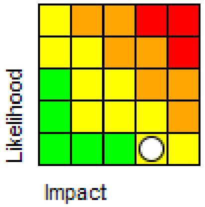
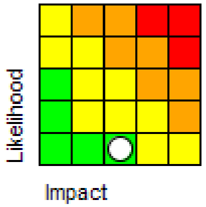
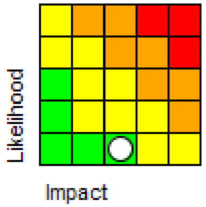
Risk at last report

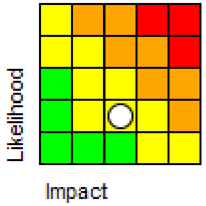
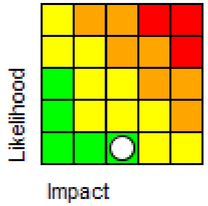
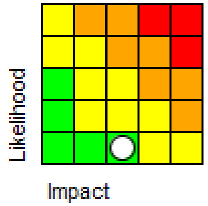
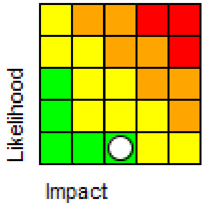
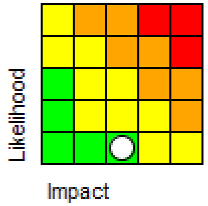
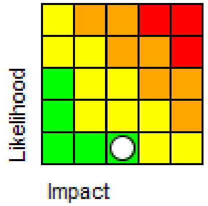
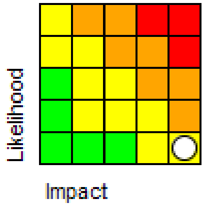
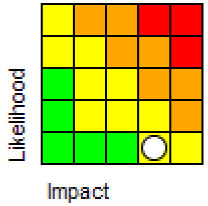
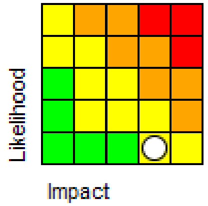


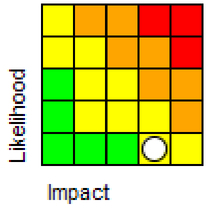
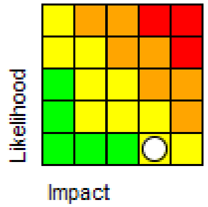
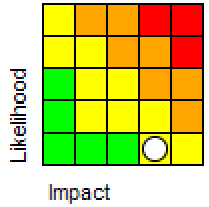
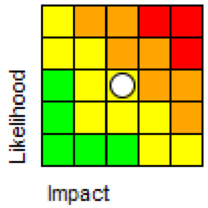
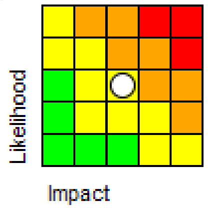
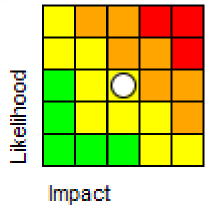
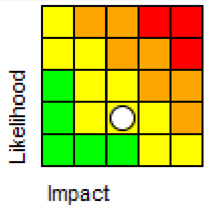
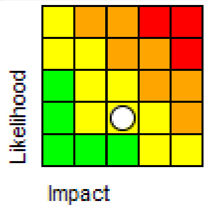
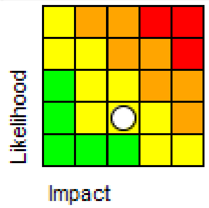
Residual (Current) Risk

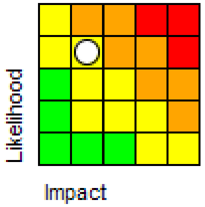
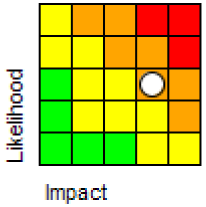
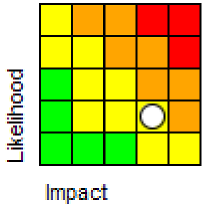
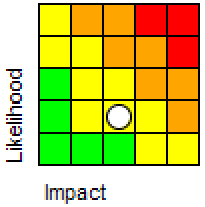
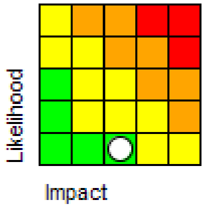
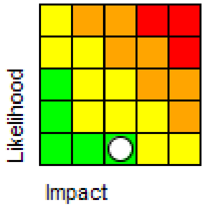
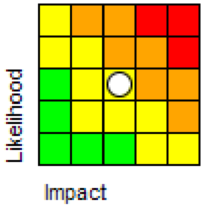
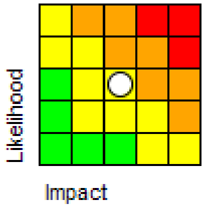
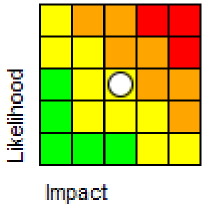
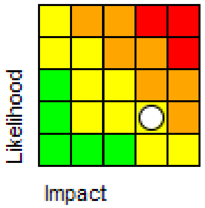
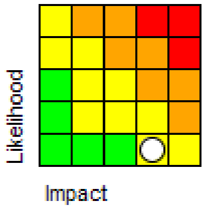
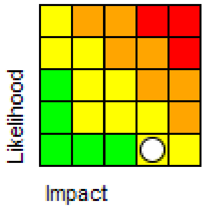


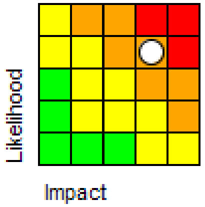
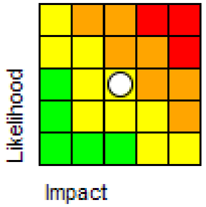
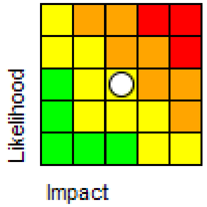
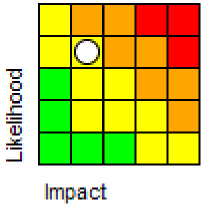
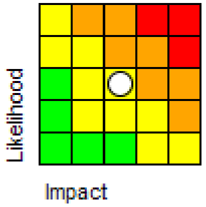
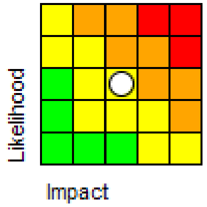
Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
1 Failure to process pension payments and lump sums on time	Non-availability of Altair pension system ResourceLink payroll system key staff or error omission, etc.	Retiring staff will be paid late which may have implications for their own finances. Reputational risk for the Fund Financial cost to the fund if interest has to be paid to members.	Robust maintenance and update of Altair and ResourceLink Sufficient staff cover arrangements Staff training and checking of work				
2 Failure to collect and account for contributions from employers and employees on time	Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively. Failure of employer to provide required information.	Adverse audit opinion for failure to collect contributions by 19th of month Potential delays to employers' FRS17 year-end accounting reports	Robust maintenance and update of ResourceLink and Authority Financials systems, sufficient staff cover arrangements, staff training and checking of work. Ongoing communication with employers to ensure they understand their responsibilities to pay by the 19th of the month.				

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
3 Insufficient funds to meet liabilities as they fall due	Contributions from employees/employers too low Failure of investment strategy to deliver adequate returns Significant increases in longevity, etc.	Immediate cash injections would be required from employers.	Funding Strategy Statement Investment Strategy Triennial Valuations Ongoing advice from investment consultants, etc.			Regular monitoring of cash flow.	
4 Inability to keep service going due to loss of main office, computer system or staff	Fire, bomb, flood, etc.	Temporary loss of ability to provide service.	Dundee City Council Business Continuity plan in place.			Daily back up and contingent procedures implemented Back-up server located in different building	
5 Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the fund	Internal and external audit regularly test that appropriate controls are in place and working effectively. Regulatory control reports from investment managers, custodian, etc are also reviewed by audit. Due diligence is carried out when a				

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
			new manager is appointed. Reliance is also placed on Financial Conduct Authority registration.				
6 Unable to participate in scheme	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Fund matures more quickly	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's liabilities are best met going forward.			Results of Actuarial Valuation as at 31/3/14 demonstrates health of funding and ability to reduce contributions	
7 Significant rises in employer contributions due to poor/negative investment returns	Poor economic conditions, incorrect investment strategy Poor selection of investment managers	Poor/negative investment returns leading to increased employer contribution rates.	Performance monitored on an ongoing quarterly basis Diversified range of investment managers over different asset classes			Introduction of 5% volatility reserve as additional protection	
8 Failure of global custodian	Financial collapse of global custodian or failure to safeguard assets or records.	Financial loss to the fund. Loss of information.	Legal agreement with custodian. Credit rating monitored on an ongoing basis. Regulated by Financial Services				

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
			Authority. Assets not on custodian balance sheet.				
9 Failure of Investment Manager	Market sector falls substantially	Financial loss to the fund	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes. Advice provided by Investment Consultant.				
10 Equity Risk	Market sector falls substantially	Financial loss to the fund	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes Advice provided by Investment Consultant.				
11 Active Manager Risk	Investment manager underperforms.	Financial loss to the fund.	Performance monitored on an ongoing quarterly basis Targets and tolerance levels set.				

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
12 Failure to comply with LGPS and other regulations	Lack of technical expertise/staff resources to research regulations IT systems not updated to reflect current legislation, etc	Wrong pension payments made or estimates given. New scheme and regulations not fully known therefore staff will be unfamiliar	Verification process in place within Pensions section, ongoing staff training undertaken.			Knowledge and experience of new scheme increasing	
13 Failure to hold personal data securely	Insufficient security of data Inadequate data retention policy, backup and recovery procedures.	Data lost or compromised Reputational risk.	Data Protection Act adhered to Secure communication channels in place and system access is controlled				
14 Failure to keep pension records up-to-date and accurate	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid	Verification process in place within Pensions section Ongoing communication with employers.				
15 Lack of expertise on Pension Committee, Pension Board or amongst officers	Lack of training and continuous professional development.	Detrimental decisions made in relation to investments.	Provision of training External investment advice Consultation with peer groups.				

Risk Title	Risk Factors	Potential Effect	Control Measures	Original Risk	Risk at May 2016	Guidance on change to risk	Residual Risk
16 Over reliance on key officers	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	If an officer leaves or falls ill knowledge gap may be difficult to fill.	Key officers transfer specialist knowledge to colleagues In the short-term advice can be sought.				
17 Failure to communicate properly with stakeholders	Lack of clear communication of policy and actions particularly with employers and scheme members	Scheme members not aware of their rights resulting in bad decisions Employers not aware of regulations, procedures, etc.	Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.				

ITEM No …2………..

ITEM No …3……….

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 5 SEPTEMBER 2016**

REPORT ON: **FIDUCIARY DUTY**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **285-2016**

1 PURPOSE OF REPORT

This report informs of the expert legal opinion provided by Pinsent Mason (legal advisors to The Scheme Advisory Board).

2 RECOMMENDATIONS

The Sub-Committee are asked to note the content of the report.

3 BACKGROUND

The application of the legal principals of Fiduciary Duties have been considered by the Scheme Advisory Board (SAB), and their appointed specialist advisors have produced legal opinion in order to provide Pension Committees and Boards with guidance for application as well as clarity on how fiduciary duty would impact upon the investment decision making process (see appendix 2). The SAB also make specific request in relation to investment programmes and best practice stewardship of assets (see appendix 1).

4 SUMMARY

4.1 Pinsent Mason Legal Opinion

The following summarises the key points from the legal opinion provided, considering all relevant legislation and regulations as well as previous expert legal opinion sought both in Scotland and England (appendix 2):

- The duties of the Pensions Committees in Scotland are of a fiduciary nature, and decisions (investment or otherwise) which may affect a party to whom the fiduciary duty is owed, should be made having regard to the best interests of that party.

- Fiduciary duties are owed in respect of LGPS Pension Committees to scheme employers and scheme members in relation to investment matters.

- Fiduciary duties on Pensions Committees both in relation to investment matters and more generally should be exercised by the Pensions Committees on whom the duties are bestowed, having taken professional advice (such as investment advice) where appropriate. It is not considered appropriate to canvas the views of the beneficiaries before such decisions are taken.

- There is requirement to invest in accordance with the "prudent person" rule in the best interest of members and beneficiaries, and this does apply to the LGPS.

- Non-financial factors (including social, environmental or ethical considerations) may be taken into consideration as part of any investment decision making process, provided that:-

(i) there is no policy in place limiting the scope of potential investments purely on the grounds of Non-Financial Considerations. A decision regarding any particular investment should not be made where the diversification of potential investments has been compromised; and

(ii) the proposed investment is expected to generate financial returns similar to those expected from other investment opportunities available in the market at that time offering similar risk and return characteristics.

- When considering investments, Pensions Committees may look at environmental, social and governance (ESG) issues where the financial performance of that investment may be adversely impacted as a result of any particular environmental, social or governance factor. The investment options may be restricted where the investment returns to the fund may be negatively impacted by such environmental, social or governance factors.

4.2 Guidance from Scheme Advisory Board (SAB)

The following is a summary of the guidance to Pension Committees provided by the SAB:

- To note the legal opinion provided.
- Have long-term investment horizons appropriately aligned to their member and employer stakeholders and investment strategies.
- Dedicate sufficient time and resource, taking advice from suitably expert and reputable advisors to properly inform asset allocation, investment and manager selection decisions.
- Exercise sufficient levels of attention, care and diligence, taking advice from suitably expert and reputable advisors in appraising particular investment opportunities.
- Have due regard to any conflicts of interest when appraising particular investment opportunities and/or manager mandates.
- Have appropriate governance arrangements in place to effectively implement and review their investment strategies.
- Incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment and ensuring that any managers appointed by the Funds are doing likewise.

5 FINANCIAL IMPLICATIONS

There are no financial implications.

6 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

7 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

APPENDIX 1

The Scottish Local Government Pension Scheme
c/o the Head of Service,
Convener of the Pensions Committee and Chair of the Pension Board of the respective Scottish LGPS Fund

24 June 2016

Fiduciary Duty

The Scheme Advisory Board (**SAB**) has been considering the application of the legal principles of Fiduciary Duty by the Pensions Committees of the Local Government Pension Scheme (**LGPS**) in Scotland. In doing so it has, following a tender exercise, appointed specialist legal advisors in this sector to produce a legal report and opinion (**Opinion**) which builds on the extensive advice from industry experts already obtained in this area but also provides clarity of the position under Scottish law.

We therefore attach the Opinion to assist your Pensions Committee and Pension Board in applying this fundamental principle in practice. We believe the Opinion is helpful in that it reaffirms the substantial majority of advice already obtained on this matter, and its consistent application in Scotland, but also provides further clarification on a number of important matters.

The SAB is acutely aware of the need for the Scottish LGPS to have the flexibility to apply these principles to specific circumstances and the latitude that this will necessarily require. With that in mind, the SAB would request that Pensions Committees and Pensions Boards have regard to the following when exercising their fiduciary duties in relation to their investment programmes and, more generally, in ensuring best practice stewardship of their assets:

1. The Opinion of 11 February 2016 enclosed with this letter.

2. The expectation that Funds within the Scottish LGPS will:

    a. have long-term investment horizons which are appropriately aligned to their member and employer stakeholders and investment strategies that (when taken as a whole) reflect this;

b. dedicate sufficient time and resource, taking advice from suitably expert and reputable advisors where appropriate, to properly inform their asset allocation, investment and manager selection decisions;

c. exercise sufficient levels of attention, care and diligence, taking advice from suitably expert and reputable advisors where appropriate, in appraising particular investment opportunities. It is recognised that due to the large amount of potential investment opportunities available, Funds will necessarily require to manage their resource to focus on those opportunities that are best aligned to their asset allocation and investment strategy;

d. have due regard to any conflicts of interest when appraising particular investment opportunities and/or manager mandates;

e. have appropriate governance arrangements in place to effectively implement and review their investment strategies; and

f. incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. Dedicating sufficient time and resource to monitoring the proper application of ESG factors in the manner set out above.

These guidelines are deliberately broad to ensure that they do not conflict with the legal principles or analysis and take into account the fact that this is a complex area where the detail will necessarily be required to be considered on a case by case basis by Pensions Committees and Pension Boards. Nevertheless, they are also viewed as being sufficiently detailed to ensure that Funds will be required to take a responsible approach, grounded in industry best practice, to administering their investment programmes and in exercising their fiduciary duty. Importantly, the SAB is keen to guard against extremes or selective interpretation of the legal principles by Pension Committees and Pension Boards, for instance which might unduly restrict the consideration of ESG and other wider factors which the Opinion makes clear may influence the choice of investments so long as that does not risk material financial detriment to the Fund (with some more detailed advice and parameters included to assist Funds in assessing this).

Yours sincerely

Jonathan Sharma

Hayley Wotherspoon

Dave Watson

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APPENDIX 2

Report for National Scheme Advisory Board

Report on legal duties of LGPS Pensions Committees in relation to the investment of LGPS Funds

1. Introduction

This Report has been prepared for the benefit of the National Scheme Advisory Board ("**SAB**") for the Scottish Local Government Pension Scheme (the "**LGPSS**") and considers the application of fiduciary and other duties owed by Pensions Committees in relation to investment of LGPSS pension funds.

This Report refers to and summarises various pieces of legal advice which have been obtained for the benefit of LGPS funds in England and Wales and its Scheme Advisory Board. The Report then highlights where the two jurisdictions are aligned and where there are differences between the two jurisdictions.

The references marked throughout the Report can be found in section 7.

Finally, the Report sets out the views of our own QC, Craig Connal QC, ("**Scottish Counsel**") where we felt it would be of benefit to instruct a Scottish counsel to advise on these issues.

2. Background

The LGPSS consists of various pension funds administered by local authorities which provide pension schemes for local government and other eligible workers in Scotland. The LGPSS is established and governed by statute, and is similar in terms of legal structure to the English Local Government Pension Scheme (the "**LGPSE**").

The LGPSS and the LGPSE are not established as trust funds, and those who administer them are not trustees. It is therefore not immediately clear whether the duties of trustees in relation to investment apply also to the investment committees of the LGPSE and the LGPSS. In addition, the Pensions Committees of the LGPSE and the LGPSS (each multi-employer occupational pension funds) arguably owe a fiduciary duty to (i) the pension scheme members (beneficiaries); and (ii) the admitted employer bodies (which have financial exposure through their obligation to pay contributions and meet any liabilities) within the respective funds. The Pensions Committees may also be subject to certain public law duties in this regard. Advice has been received by the Local Government Association on these points from Nigel Giffen QC**[1]** in relation to the LGPSE, and in this Report we consider the extent to which that advice is applicable in Scotland to the LGPSS.

Directive 2003/41/EC**[2]** (the "**IORP Directive**") imposes obligations on EU Member States in relation to the activities and supervision of institutions for retirement provision. Among other things the Directive sets out in Article 18 the general requirement that Member States should require retirement institutions to invest in accordance with the "prudent person" rule, and more specific requirements concerning suitability of investments. Advice has been received by the Local Government Association on this point from Michael Furness QC**[3]**. in relation to the LGPSE, and in this Report we consider whether that advice is equally applicable to the LGPSS.

3. Executive Summary

- Although the LGPSS is not itself a trust, the duties of the Pensions Committee in Scotland are of a fiduciary nature. Accordingly, any decision (investment or otherwise) made by a Pensions Committee which may affect a party to whom the fiduciary duty is owed, should be made having regard to the best interests of that party.

- Administering authorities owe fiduciary duties to scheme employers and scheme members both generally and specifically in relation to investment matters.

- Article 18(1) of the IORP Directive**[4]**, including the requirement to invest in accordance with the "prudent person" rule in the best interest of members and beneficiaries, does apply to the LGPSS and the Investment Regulations (defined herein) should be construed to include the relevant principles.

- Non-financial factors (including social, environmental or ethical considerations) may be taken into consideration as part of any investment decision making process, provided that:-

  (i) there is no policy in place limiting the scope of potential investments purely on the grounds of Non-Financial Considerations (as defined in Section 5 herein). A decision regarding any particular investment should not be made where the diversification of potential investments has been compromised; and

  (ii) the proposed investment is expected to generate financial returns similar to those expected from other investment opportunities available in the market at that time offering similar risk and return characteristics.

- When considering investments, Pensions Committees may look at environmental, social and governance (ESG) issues where the financial performance of that investment may be adversely impacted as a result of any particular environmental, social or governance factor. The investment options may be restricted where the investment returns to the fund may be negatively impacted by such environmental, social or governance factors.

- Given the uncertainties in relation to the LGPSE, we sought confirmation and clarification from Scottish Counsel on:-

(i) whether he agrees with our analysis that the IORP Directive applies directly to the LGPSS;

(ii) how Article 18 in particular interacts with the Investment Regulations and whether the Regulations must be considered as subject to and overridden by Article 18; and

(iii) how the relevant case law is likely to be interpreted by a Scottish court in relation to the LGPSS.

His advice is highlighted throughout this Report and reinforces the above conclusions, making no notable distinctions between the treatment of the LGPSE (under the laws of England and Wales) and the LGPSS (under Scots law).

- Neither we nor Scottish Counsel have identified any material points which, in our view, would require further analysis by counsel.

4. Duties of Pensions Committee Members

In this section we consider the legal obligations on Pensions Committee members in relation to the investment of LGPSS assets.

In particular we consider obligations under:-
- common law;

- public law;

- the Local Government (Management and Investment of Funds) (Scotland) Regulations 2010 (the "**Investment Regulations**")**[5]** ;and

- the IORP Directive.

We also seek to clarify to whom Pensions Committee members owe a fiduciary duty.

4.1 Duty of care at common law

The 1999 Joint Report of the Law Commission and the Scottish Law Commission (Law Com Report No 260, Scot Law Com Report No 172)**[6]** stated that:-

- trustees are under a duty to invest trust funds in their hands, subject to their overriding obligation to administer the trust in accordance with its terms.

- in performing their duty to invest trust funds, trustees must exercise proper care. The standard is that of the ordinary prudent man of business acting in the management of his own affairs.

- prudence requires more than mere honesty, good faith and sincerity. A level of proficiency and competence is expected of a trustee. However, quite what that level is will vary from case to case.

The Scottish case of *Martin v City of Edinburgh Council***[7]** in 1987 is, in our view, the best authority available for the proposition that administering authorities owe a fiduciary duty to the beneficiaries of the LGPSS. Although on its facts the case concerned certain public and charitable funds held by the council in trust, Scottish Counsel considers that the analysis in that case is equally applicable to other situations where persons, such as local authorities have responsibility for investing funds for the benefit and/or the interests of third parties. In his opinion, referred to in Section 5, Nigel Giffin QC took a similar view.

In the *Martin* case Lord Murray stated that:-

- there was a legal duty on trustees to apply their minds to the best interests of the beneficiaries;

- there was an obligation to take appropriate professional advice in relation to a proposed investment decision; and

- failure to comply with these duties resulted in a breach of trust.

He stated:-

"…I conclude that the pursuer has proved a breach of trust by the council in pursuing a policy of disinvesting in South Africa without considering expressly whether it was in the best interests of the beneficiaries and without obtaining professional advice on this matter. That is sufficient for the decision of this case and it turns entirely on the general principles of law applicable to trusts in Scotland. In short the trustees acting on behalf of the council misdirected themselves in failing to comply with a prime duty of trustees, namely, to consider and seek advice as to the best interests of the beneficiaries, and so they are in breach of trust."

This case sets out the core obligations which apply to fiduciaries in relation to the investment of trust funds. In Scottish Counsel's view the case also supports the proposition that those obligations apply equally to those entrusted with investing LGPSS assets, even though the LGPSS is not itself a trust. Scottish Counsel considers that the investment duty of the Pensions Committee, and of those administering the funds, is a fiduciary one.

4.2 Public law duties

What is set out above considers (in inevitably simplified form) the general obligations encumbent under common law on public authorities. Different considerations arise (or may arise) in the event of obligations being imposed on decision-makers through the form of statutory public duties (outwith the specific pensions arena). In his opinion, Mr Giffin QC considers that point using as examples duties under The National Health Service Act 2006 (applicable in England and Wales) and The Equality Act 2010 (applicable throughout the UK). He points out that the duties in these statutes (and others are likely to be in similar terms) are couched in non-obligatory language. In the former what is "considered appropriate" for improving health and in the latter to have "due regard" to equalities considerations. In essence he then concludes that, at most, this might require a consideration to be brought into the equation when an investment or similar decision was being made and where the choice was neutral from an investment perspective. In other words, if the investment considerations pointed only in one direction, an obligation to "have regard" to other considerations would not require a different decision. Mr Giffin concludes that such situations are expected to be rare. We agree.

Accordingly, we conclude that in most circumstances the issue will not arise and where it does only where a decision on investment is otherwise neutral from an investment perspective. To take a Scottish example, the Climate Change (Scotland) Act 2009 imposes duties to exercise functions in a way "best calculated" to contribute to delivery of climate change targets and in a manner considered "most sustainable". We see no reason why such generalised duties would not be treated in a similar way to the approach suggested by Mr

Giffin. In the event of a decision neutral from an investment perspective which is viewed as significantly more sustainable, the sustainability obligation might come into play. What if the statute was more direct and less of an exhortation? If a circumstance arose where the investment body was satisfied that it fell within the ambit (usually a definition of public bodies) of the particular statutory obligation and that statutory obligation was worded in such a way as to direct action in one way only, then in our view the investment decision would require to be made in accordance with that direct statutory requirement. The law would require to be obeyed and it could not then be said that the investment decision taken in obedience to that law was in breach of a fiduciary or other general duty.

In our view, however, such circumstances are unlikely to arise, given the existence of special statutory and regulatory regimes directed at the proper functioning of pension arrangement. Our overall conclusion is accordingly that public law duties are in practice unlikely to add much to the considerations which would arise in any event under the ambit of fiduciary duties and that statutory intervention is unlikely in practice (outwith the specialist pension field) to impact significantly on these decisions.

4.3 The Investment Regulations

The Investment Regulations set out the statutory obligations on the LGPSS in relation to investment. They are similar in terms to the current English equivalent**[8]** although we note that the concept of the "prudent man" will be legislated for explicitly in England & Wales as part of the proposed 2016 changes to the LGPSE investment regulations (see below).

Regulation 11**[9]** sets out the core obligations, which are (in summary):-

- to formulate a policy for the investment of fund money, with a view-

    (a) to the advisability of investing fund money in a wide variety of investments; and
    (b) to the suitability of particular investments and types of investments.

- to invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.

- to obtain proper advice at reasonable intervals about its investments.

- to consider such advice in taking any steps in relation to its investments.

These obligations do not contain any specific reference to a "prudent man" test, which is one of the common law duties of trustees in relation to investment, and is a key provision in IORP and, we anticipate, will underpin guidance behind the new investment regime for the LGPSE (which may be adopted in Scotland in due course depending on the attitude of Scottish Ministers following advice from the SAB).

The Department for Communities and Local Government (the "**DCLG**") is currently consulting**[10]** on the possible revocation and replacement of the English equivalent of the Investment Regulations. It notes (at paragraphs 2.12 to 2.22):-

- the suggestion that Article 18(1) of IORP (see below) should be transposed into the LGPSE investment regulations

- that the investment regulations applicable to private sector pension schemes did transpose Article 18(1)

- that the LGPS is not subject to trust law, but that those administering it are in a similar position to trustees

- those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it. (This analysis is consistent with the comments in paragraph 8 of opinion of Nigel Giffen QC).

The consultation on this point concludes by saying that:-

"Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes."

In the absence of any clear reference in either the Investment Regulations or their English equivalent to the "prudent man" principle it is difficult to see how Ministers can be quite so confident about that conclusion, particularly when the private sector legislation has specifically transposed the requirements of Article 18(1) of IORP.

The consultation comments are nevertheless of interest since they seem to be in contrast to the views expressed by Michael Furness QC in relation to IORP (referred to in the next section). We would therefore draw your attention to the comments of Scottish Counsel below.

4.4 Article 18(1) of the IORP Directive

The IORP Directive applies to "institutions for occupational retirement provision". The full text of Article 18(1) is set out in section 7.

The key provisions for present purposes in relation to investment are that:-

- Member States must require institutions located in their territories to invest in accordance with the "prudent person" rule

- the assets must be invested in the best interests of members and beneficiaries

- in the case of a potential conflict of interest, the investment must be made in the sole interest of members and beneficiaries.

- assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

If these provisions apply to the LGPSS then they impose an additional set of requirements which the LGPSS pension funds and those administering them require to observe. It should be noted though that the DCLG in its consultation document appears to be of the view that the LGPSE is already consistent with the requirements of the private sector investment regulations which transpose Article 18(1).

The question of whether the IORP Directive applies to the LGPSE was the subject of an opinion by Michael Furness QC in 2007. He concluded that:-

- the entire Directive applies to the LGPSE;

- Article18 specifically applies to the LGPSE in any event; and

- the LGPSE is not compliant with Articles 8**[11]** and 18 of the Directive.

We do not consider that the position of the Investment Regulations in Scotland is materially different from that of the English Regulations considered by Mr Furness in his opinion. The reasoning in his opinion seems to us to apply to the position in Scotland as it applies in England.

It seems that what Mr Furness is saying is that the IORP Directive does apply to the LGPSE, that it therefore ought to be operating in accordance with it, but that the national legislation which applies to it is inconsistent with the IORP Directive. (See in particular paragraphs 20 to 23 of his opinion.)

On the other hand, DCLG seems to take the view that the obligations under the IORP Directive already apply to the LGPSE, and that no specific legislative changes are needed for the LGPSE to be compliant with the IORP Directive. This is one area of uncertainty where in our view, it was helpful to obtain further advice from our own Scottish Counsel.

4.5 To whom do Pensions Committee members owe a fiduciary duty?

Nigel Giffin QC was of the view that administering authorities owed a fiduciary duty to both scheme employers and scheme members on the basis, in summary, that if the fund performs poorly it could result in:

- the requirement for higher employer contributions; and

- the potential loss of discretionary powers being exercised in favour of the member and/or legislative changes requiring higher member contributions.

In the English case of *Charles Terence Estates Ltd v Cornwall Council***[12]**, the court confirmed, having regard to previous cases**[13]**, that the council had fiduciary duties to council tax payers, although that case related to lease arrangements rather than pension arrangements.

Whilst councils may have a fiduciary duty to tax payers where a decision by them has a direct impact on tax payers, as was the case in *Charles Terence Estates Ltd* and the cases to which it referred, in our view, the position can be distinguished from the duties on Pensions Committees in relation to their pension arrangements. There is not, in our view, a sufficiently direct relationship between the LGPSS and tax payers which would result in Pension Committees having a fiduciary duty to tax payers, or to take actions which are in the best interests of those tax payers.

Accordingly, on the basis that a poor investment decision may result directly in adverse consequences for (i) scheme employers; and (ii) scheme members, it is our view, which is shared by Scottish Counsel, that Pensions Committee members of the LGPSS owe a fiduciary duty to both of those entities both in general and in the context of investment decisions. Such duty is not, however, owed to the tax payer.

In certain circumstances, it may be difficult to balance these duties as there may be competing interests. In such circumstances, the Pensions Committee should consider both parties' interests and treat each of them fairly and equitably, but not necessarily equally where favouring one party over another can be justified. Further legal advice may be required in cases of uncertainty.

Scottish Counsel's opinion

Counsel's view is that the Scottish courts are likely to agree with opinions regarding fiduciary duties that have been received in relation to the LGPSE – i.e. that fiduciary duties do apply to those who hold funds in a fiduciary capacity, such as the LGPSS.

He is also of the view that as a point of principle, Scottish courts will not take a different approach to the application of the IORP Directive – i.e. that whilst the IORP Directive has not been explicitly transposed into the Investment Regulations, the Directive should be treated as being directly applicable to the LGPSS and the Investment Regulations should be read as subject to the principles set out on the IORP Directive and Article 18 in particular. Given that the prudent man principle is well enshrined in Scots law, the reference to "prudent person" in the IORP Directive is less significant.

5. Scope for consideration of non-financial factors

Regulation 12(2)(f) of the Investment Regulations requires administering authorities to maintain a statement of investment principles which sets out, among other things, "the extent to which social, environmental or ethical considerations are take into account in the selection, retention and realisation of investments".

In isolation, this provision could be construed as entitling investment decisions to be made purely with regard to non-financial matters and so we sought the opinion of Scottish Counsel on this matter to establish the extent to which non-financial matters can of themselves influence investment decisions other than as a factor of assessing their impact on investment risk and return in the usual way.

An investment policy, such as an ethical investment policy, is one which is not guided solely by financial criteria, but takes into account non-financial considerations independent from the investment risk and return analysis (“**Non-Financial Considerations**”).

On the basis that Article 18(1) of the IORP Directive applies to the LGPSS (or in any event that the prudent man principle applies under Scots law) and therefore that investment and other decisions must be exercised by the LGPSS in a 'fiduciary' capacity, we now consider the extent to which the LGPSS is entitled to consider Non-Financial Considerations when reaching decisions regarding investment and otherwise.

One of the leading cases on investment duties is the English case of *Cowan v Scargill***[14]** in 1984. The general principles set out by Megarry V-C in this case in relation to investment decisions are that:

- the starting point is to exercise powers in the best financial interests of the beneficiaries;

- when considering what investments to make, the fiduciary's personal interests and views should be put aside;

- the ordinary prudent man test applies in making investment decisions;

- where the fiduciary is opposed to an investment for non-financial reasons, the fiduciary should not refrain from making the investment by reason of those views;

- Megarry V-C could see no reason to hold that different principles apply to pension fund trusts as apply to other trusts; and

- Trustees must do the best they can for the benefit of their beneficiaries, and not merely avoid harming them.

The conclusion is that in deciding how to invest pension scheme assets, moral and ethical principles should be put aside.

Nicholls V-C in another English decision *Harries v Church Commissioners***[15]** in 1992 stated in summary that 'trustees must act prudently' and:

- investment decisions may be made on moral grounds, so long as that course of action "would not involve a risk of significant financial detriment"

- otherwise, investment decisions should not be made on non-financial grounds

Nigel Giffin QC summarised these cases and reached the view that the LGPSE can:

- have regard to non-financial considerations where that does not run the risk of material financial detriment to the fund; and

- the LGPSE should not place its own wider interest (whether its own or those of the areas inhabitants) above those of the scheme employer (i.e. the LGPSE must be "blind to its own interests").

The decision in the Scottish case of *Martin v City of Edinburgh* in 1987 (referred to in section 4.1 of this Report) is also relevant to these considerations.

In relation to taking non-financial matters into account, Lord Murray states (in summary):

- the position in Scotland is that trustees must act prudently and in the best interest of the beneficiaries;

- the fiduciary must recognise that he has his own preferences and principles but that he should "nonetheless do his best to exercise fair and impartial judgment on the merits of the issue before him"; and

- trustees must not simply adhere to a policy where that policy restricts the choice of investment.

In relation to the procedure to make investment decisions, the Law Commission has stated that in relation to trust arrangements "…the trustees may consider the views of their beneficiaries when making investment decisions, but there is no need for them to do so. Trustees must make the ultimate decisions."

In our view, the fiduciary duties on Pensions Committees both in relation to investment matters and more generally should be exercised by the Pensions Committees on whom the duties are bestowed, having taken professional advice (such as investment advice) where appropriate. It would not be appropriate, in our view, to canvas the views of the beneficiaries before such decisions are taken.

Scottish Counsel's opinion

Having considered the relevant cases outlined above and the opinions of Nigel Giffin QC and Michael Furness QC, Scottish Counsel's view is that the LGPSS should exercise its investment duties in a fiduciary capacity.
Counsel was also of the view that the decision in *Harries* should be limited to its own specific facts and that trustees (and by extension Pensions Committees) are required to do more than simply ensure that the investment "would not involve a risk of significant financial detriment".

In summary, Scottish Counsel's view on the application of Non-Financial Considerations to the LGPSS is that:-

- there should be no policy in place that would restrict the choice of investments available to the LGPSS, including those based purely on the grounds of Non-Financial Considerations, other than restrictions under the Investment Regulations and by law. However, when making an investment decision, Pensions Committees may take environmental, social and governance (ESG) considerations into account in relation to that investment if the financial performance of that investment may be impacted as a result of any particular environmental, social or governance factor;

- any policy which specifically excludes the choice of investment purely based on Non-Financial Considerations will be contrary to the Pensions Committees' fiduciary duties and should be set aside before any investment decision is made; and

- Pensions Committees should seek to obtain the best returns for the fund while acting prudently. Investments should be made with the intention of achieving the best financial position for the fund whilst balancing risk and return considerations. Provided there is compliance with the above, social, environment and/or ethical considerations may be taken into account.

6. Implications for SAB and Pensions Committees

Pension Boards were established under the Public Service Pensions Act 2013**[16]** and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Pension Boards are responsible for assisting the administering authorities in relation to ensuring compliance with legislative and other requirements relating to the governance and administration of the LGPSS.

The Scheme Advisory Board (SAB) was also established under the Public Service Pensions Act 2013**[17]** and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. The purpose of the SAB is to provide advice to the Scottish Ministers and to the Pension Boards and managers of the LGPSS in relation to the effective and efficient administration and management of the LGPSS.

In summary, it is our view that Pensions Committees in Scotland owe a fiduciary duty to the scheme employers and the scheme members in general and specifically in relation to investment matters. Those duties should be exercised in the best interests of the beneficiaries and in relation to investment decisions, should aim to achieve the best financial position for the fund, balancing risk and return in the usual way.

The Pensions Committees should seek appropriate professional advice before exercising their investment powers. In relation to investment decisions, they should not have a policy in place which would limit their investment options and all decisions should be made on a "prudent man basis. However, Pensions Committees may take environmental, social and governance (ESG) factors into consideration in relation to any investment decision, if the financial performance of that investment may be impacted by one or more of those factors.

SAB should have procedures in place to monitor the Pensions Committees to ensure the effective and efficient administration and management of the LGPSS in accordance with legislative requirements and the recommendations in this report and to advise the Pensions Committees where these have not been met.

7. References

References are in the order they appear in this Report.

[1] Opinion by Nigel Giffin QC dated 25 March 2014
[2] IORP Directive Directive 2003/41/EC
[3] Opinion by Michael Furness QC dated 24 May 2007
[4] Article 18(1) of IORP Directive

Investment rules

1 Member States shall require institutions located in their territories to invest in accordance with the "prudent person" rule and in particular in accordance with the following rules:

(a) the assets shall be invested in the best interests of members and beneficiaries. In the case of a potential conflict of interest, the institution, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries;

(b) the assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.
Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits;

(c) the assets shall be predominantly invested on regulated markets. Investment in assets which are not admitted to trading on a regulated financial market must in any event be kept to prudent levels;

(d) investment in derivative instruments shall be possible insofar as they contribute to a reduction of investment risks or facilitate efficient portfolio management. They must be valued on a prudent basis, taking into account the underlying asset, and included in the valuation of the institution's assets. The institution shall also avoid excessive risk exposure to a single counterparty and to other derivative operations;

(e) the assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole.
Investments in assets issued by the same issuer or by issuers belonging to the same group shall not expose the institution to excessive risk concentration;

(f) investment in the sponsoring undertaking shall be no more than 5% of the portfolio as a whole and, when the sponsoring undertaking belongs to a group, investment in the undertakings belonging to the same group as the sponsoring undertaking shall not be more than 10% of the portfolio.
When the institution is sponsored by a number of undertakings, investment in these sponsoring undertakings shall be made prudently, taking into account the need for proper diversification.
Member States may decide not to apply the requirements referred to in points (e) and (f) to investment in government bonds.
[5] The Local Government (Management and Investment of Funds)(Scotland)Regulations 2010

http://www.legislation.gov.uk/ssi/2010/233/body/made
[6] Scottish Law Commission: Report on Trust Law 2014 (No 239)
http://www.scotlawcom.gov.uk/files/4014/0904/0426/Report_on_Trust_Law_SLC_239.pdf **[7]** *Martin v City of Edinburgh Council* [1989]PLR, [1988] SLT 329
[8] the Law Commission report (No 350) on the Fiduciary Duties of Investment Intermediaries;
http://www.lawcom.gov.uk/wp-content/uploads/2015/03/lc350_fiduciary_duties.pdf
[9] Regulation 11 of the Investment Regulations
11 Investment policy and investment of pension fund money
(1) An administering authority must formulate a policy for the investment of its fund money.
(2) The authority's investment policy must be formulated with a view -
(a) to the advisability of investing fund money in a wide variety of investments; and
(b) to the suitability of particular investments and types of investments.
(3) The authority must invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.
(4) The authority may vary its investments.
(5) The authority must obtain proper advice at reasonable intervals about its investments.
(6) The authority must consider such advice in taking any steps in relation to its investments.
[10] the Department for Communities and Local Government Consultation on the Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: consultation
[11] Article 8 of the IORP Directive
Legal separation between sponsoring undertakings and institutions for occupational retirement provision
Each Member State shall ensure that there is a legal separation between a sponsoring undertaking and an institution for occupational retirement provision in order that the assets of the institution are safeguarded in the interests of members and beneficiaries in the event of bankruptcy of the sponsoring undertaking.
[12] *Charles Terence Estates Limited v Cornwall Council* [2012] EWCA Civ 1439
[13] *Hazell v Hammersmith LBC* [1992] 2 AC 1;
Bromley LBC v Greater London Council [1983] 1 AC 768
[14] *Cowan v Scargill* [1985] Ch 270
[15] *Harries v Church Commissioners for England* WLR 1241
[16] Section 5 of the Public Service Pensions Act 2013
[17] Section 7 of the Public Service Pensions Act 2013

8. Legal Input and Contacts

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As a solicitor-advocate qualified in the jurisdictions of Scotland and England and Wales, he has rights of audience in all courts, civil and criminal, including the Supreme Court of the United Kingdom. Craig has appeared in high profile and complex litigation in a wide variety of courts, inquiries and tribunals and includes pensions within his areas of practice. He was the first solicitor-advocate in Scotland to be appointed to the rank of Q.C. (Queens Counsel) and won Solicitor Advocate of the Year category in The Law Society Excellence Awards 2012.

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9. Disclosure

This Report is intended for the sole use of the Scottish Local Government Pension Scheme Advisory Board only. No other third party may rely upon or reproduce the contents of this report without the written authorisation of Pinsent Masons LLP. If any unauthorised third party comes into possession of this Report, they rely on it at their own risk and the authors do not owe them any duty of care or skill.

Pinsent Masons LLP
11 February 2016

ITEM No …4……….

REPORT TO:	**PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 5 SEPTEMBER 2016**
REPORT ON:	**POTENTIAL IMPACT OF BREXIT**
REPORT BY:	**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**
REPORT NO:	**286-2016**

1 PURPOSE OF REPORT

This report provides comment of the potential impact of the European Union Referendum Result from key service providers to the fund.

2 RECOMMENDATIONS

The Sub-Committee are asked to note the content of the report.

3 BACKGROUND

On 23 June the United Kingdom (UK) voted in a national referendum to leave the European Union (EU). This has resulted in uncertainty both for investors and for the wider financial services industry across the UK, Europe and the world.

4 SUMMARY

The following summarises key headline events and areas of potential impact to current pension fund operations in the aftermath of the initial period after the referendum result:

Investment / Economic Focus

The following summarises recent events and trends as well as potential outcomes from Investment Managers:

- **Sterling most impacted to date** - initial 10% fall followed by further volatility.
- **UK equities volatile but resilient to date** - cushioned by Foreign Exchange adjustment. Large Capitalised best performing.
- **Potential short-term economic shock to UK -** estimated 0.2% contraction in month following vote. Mild recession likely.
- **UK AAA rating downgraded by Standards &Poor**
- **Interest rates cut by0.25% by Bank of England on 4 August** - plus £70bn bond buying programme announced.
- **Further reduction expected before year end** - however negative rates unlikely**.**
- **Gilt yields hit record lows, credit spreads fall**
- **Concerns around commercial property valuations**
- **Uncertainty around when Article 50 will be triggered**
- **Continued political uncertainty -** (UK, Europe and US) expected to drive volatility in risk assets

Custodial Comment

The following are potential areas of change from Northern Trust:

- **Regulatory change arising from Brexit –** although long-term changes for financial services in the UK are considered unlikely, the UK will likely need to maintain equivalence" with EU legislation to continue taking advantage of the European Single Market.

- **Provision of regulated financial services between the UK and EU** - services between the UK to the EU will become more complicated unless a UK-EU agreement on market access can be reached.

- **Future access to EU markets –** this will be dependant on future treaty agreements reached between the UK and EU and "passporting" services across borders without individual licences.

- **Implications for data privacy between the UK and EU** - From 2018, a firm with its lead entity in the UK may need to consider relocating it to an alternative EU location if "passporting" does not extend to accommodate.

- **Implications for post-trade operations -** European Markets Infrastructure Regulation (EMIR) will continue to apply to EU-based counterparties, and other mandatory clearing deadlines will take effect prior to the UK departure from the EU.

- **Managing and marketing UK funds** - A number of possible implications from Brexit could affect the UK's fund servicing sector and impact its ability to provide asset servicing solutions to UK fund managers. For example, if the UK leaves the EU without any agreement for future relationships, any UK-based/managed Undertakings for Collective Investments in Transferable Securities (UCITS) and alternative investment funds (AIFMs) would be affected.

Actuarial Considerations

Our actuaries have seen the numerous articles in relation to the link between gilt yields and the discount rates used to value liabilities which some actuaries use (particularly in the private sector), but do not feel that the impacts warned of will have any effect on funding levels as their funding methodology considers a number of measures beyond gilt yields.

Their key consideration is that if Brexit results higher UK inflation it will have negative impact for both liabilities and global investment returns.

5 CONCLUSION

All of the comments and views noted are "potential". The key point to note is that "no one knows" in areas from regulation, legislation and the effects on the global economy. One certainty is that the uncertainty will continue to affect financial market volatility and investor behaviour which in turn could have detrimental impact in the short term to investment performance.

6 FINANCIAL IMPLICATIONS

There are no financial implications.

7 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

8 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

9 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

ITEM No …7………..

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 5 SEPTEMBER 2016**

REPORT ON: **PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **287-2016**

1 PURPOSE OF REPORT

This report provides information on the recent quarters operational performance in relation to Pension Administration.

2 RECOMMENDATIONS

The Sub-Committee are asked to note the contents of the report.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

Following the report in June 2016 (217-2016 Pension Administration Performance) detailing the review undertaken by AON Hewitt post retirement of the Pensions & Payroll Manager, the Sub-Committee and Board members requested a quarterly update report to inform of key issues identified and achievements in the previous quarter and to maintain an operational understanding of service levels, demands and constraints.

5 SERVICE SUMMARY APRIL – JUNE 2016

Annual Returns & Statements

All year end employer returns and part-time proformas were issued to the 44 employers and the pensions administration system (Altair) has subsequently been updated with new data received to enable the issue of Annual Benefit Statements by 31st August (issue previously required by end of financial year).

Pensions Estimates & Actuals

Actual Pensions Brought into Payment in Quarter	
Efficiency / Redundancy	180
Ill Health	11
Flexible	19
Preserved into Payment	73
Voluntary (inc employers consent)	43
Total Pensions Brought into Payment	326

- The fund’s largest employer (DCC) continued their VER scheme. During the quarter, 163 estimate requests were received with 117 completed and others awaiting further employer information.
- As no other large employers were mid VER exercise, there were only approximately 50 non VER estimates during the period.

Queries & Complaints

- Approximately 20-25 e mail queries were received daily during the period which equates to over 2000 queries over the quarter. Approximately 90% are dealt with within 20 working days, with the remaining 10% referred to other agencies or employers for further information.
- 2 formal complaints were received during the quarter. Both have received initial response within 10 working days, and are currently being reviewed.
- All counter visits were accommodated within 10 minutes of arrival.

Historic Caseload

- New processes were introduced in April to ensure that incoming concurrent and preserved cases were scheduled into daily task allocation 229 preserved cases calculated during the period.
- Temporary resource is being recruited to address the historic backlog of approximately 1200 concurrent and preserved cases.

6 CONCLUSION

The increased workload as a result of the current large VER scheme currently underway and the subsequent pensions being brought into payment across many employers has strained the existing resources available. This, coupled with the imposed legal requirement to issue annual benefit statements by the end of August, have meant that the team have had to prioritise their workload and not had the resource to address the historic backlogs.

Although the following quarter is also expected to be challenging, it is anticipated that the use of additional resource together with redeployed resource from other tasks will address the outstanding backlog within normal workload where possible.

7 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of sustainability, strategic environment assessment, anti poverty, equality impact assessment, privacy impact assessment and risk management.

There are no major policy issues

8 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services were consulted in the preparation of this report.

9 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

ITEM No …10(a)…....…..

**NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPHS 4, 6 and 11
OF PART 1 OF SCHEDULE 7A OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

CONFIDENTIAL

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 5 SEPTEMBER 2016**

REPORT ON: **TAYSIDE PENSION FUNDS PERFORMANCE SUMMARIES**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **288-2016**

1 PURPOSE OF REPORT

This report reviews the investment performance of the Main Fund's five Fund Managers (including Property) and the M&G UK Financing Fund for the quarter 30 June 2016. It also considers the performance of the Transport Fund which invests with four of these managers.

The report compares investment performance of the Funds with the Funds' specific benchmarks which consist of various stock and security market indices.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained herein with regard to the performance of the Tayside Main Fund and Tayside Transport Fund and their Fund Managers.

3 INTRODUCTION

The Funds moved to a more specialised structure in early July 2003. The performance measurement information is provided by Northern Trust, the Funds' custodian.

4 SUMMARY OF PERFORMANCE

The percentage returns on total assets achieved in the periods ended 30 June 2016 by each manager compared with their benchmark are shown in Appendix 1.

5 GENERAL COMMENTARY

Every quarter the Fund benchmarks its performance against that of other Scottish Local Authority Funds. This information runs a quarter behind the other information used in this report.

For the last period available (to 31 March 2016) the Main Fund performance relative to its benchmark ranked against other Funds as follows: Quarter – 8th, Year - 5th, 5 Years -5th.

In the quarter to 30 June 2016, the Main Fund return of 4.45% under-performed the benchmark return of 6.05%. All funds under-performed their benchmarks over the period except for the M&G UK Emerging Fund and the Schroder Property Fund. The Transport Fund return of 3.94% under-performed its benchmark return of 5.95%.

In the year to 30 June 2016, the Main Fund return of 7.23% under-performed the benchmark return of 8.79%. All funds under-performed over the period except for LGIM Passive Equity, the M&G UK Emerging Fund and the Schroder Property Fund. The Transport Fund return of 7.82% under-performed its benchmark return of 9.61%.

In the three years to 30 June 2016, the Main Fund return of 9.74% pa outperformed the benchmark return of 9.22% pa. All funds except for the Schroder Property Fund and the Goldman Sachs Global Fixed Income Fund out-performed over this period. The Transport Fund return of 9.46% pa out-performed its benchmark return of 9.23% pa.

In the five years to 30 June 2016, the Main Fund return of 9.18% pa out-performed the benchmark return of 8.33% pa. All funds except for the Alliance Bernstein Global Equity Fund and the Schroder Property Fund out-performed over this period. The Transport Fund return of 9.41% pa was ahead of its benchmark return of 8.60% pa.

In the ten years to 30 June 2016, the Main Fund return of 7.03% pa out-performed the benchmark return of 6.85% pa. Of the five active mandates, only the Alliance Bernstein Global Equity Fund and Schroder Property Fund under-performed over this period. The Transport Fund return of 7.73% pa was ahead of its benchmark return of 6.85% pa.

6 **ALLIANCE BERNSTEIN -** *(Target is Benchmark + 2% pa)*

Poor returns in previous periods have led to Alliance Bernstein's performance being under review. Performance had improved since the fourth quarter of 2012, but has suffered over the last year.

For the quarter ended 30 June 2016, Alliance Bernstein delivered a return of 5.58% and under-performed its benchmark return of 7.76%. Under-performance occurred across all regions except for Japan.

For the year, Alliance Bernstein was behind benchmark and target with a return of 7.37% versus 11.19% for the benchmark. Under-performance occurred across all regions except for the UK, Developed Asia Pacific Ex Japan and Japan.

For the three years, Alliance Bernstein was ahead of benchmark but behind target with a return of 10.91% pa versus 10.29% pa for the benchmark.

For the five years, Alliance Bernstein was behind benchmark and target with a return of 9.52% pa versus 9.56% pa for the benchmark.

For the ten years, Alliance Bernstein was behind benchmark and target with a return of 5.86% pa versus 8.13% pa for the benchmark.

7 **BAILLIE GIFFORD & CO**

<u>Global Equity</u> - *(Target is Benchmark + 2% pa)*

For the quarter ended 30 June 2016, Baillie Gifford Global Equities returned 7.01% and under-performed the benchmark return of 8.79%. Under-performance occurred in all regions except for Asia Pacific Ex Japan and the Emerging Markets.

For the year, Baillie Gifford Global Equities was behind benchmark and target, with a return of 11.99% versus 13.92% for the benchmark. Under-performance occurred

across all regions except for Europe Ex UK, Asia Pacific Ex Japan and the Emerging Markets.
For the three years, Baillie Gifford Global Equities was ahead of benchmark but behind target with a return of 12.17% pa versus 11.18% pa for the benchmark.

For the five years, Baillie Gifford Global Equities was ahead of benchmark but behind target with a return of 11.66% pa versus 9.91% pa for the benchmark.

For the ten years, Baillie Gifford Global Equities was ahead of benchmark but behind target with a return of 9.03% pa versus 7.75% pa for the benchmark.

UK Equity - *(Target is Benchmark + 1.5% pa)*

For the quarter ended 30 June 2016, Baillie Gifford UK Equities returned -0.94% and under-performed the benchmark return of 4.70%. Under-performance occurred in all sectors except for the Consumer Services and Technology sectors.

For the year, Baillie Gifford UK Equities was behind benchmark and target with a return of -1.98% pa versus 2.21% pa for the benchmark. Under-performance occurred in all sectors except for the Consumer Services and Financial sectors.

For the three years, Baillie Gifford UK Equities out-performed its benchmark but was behind target with a return of 6.81% pa versus 5.86% pa for the benchmark.

For the five years, Baillie Gifford UK Equities out-performed its benchmark and target with a return of 8.16% pa versus 6.27% pa for the benchmark.

8 **LEGAL & GENERAL INVESTMENT MANAGEMENT -** *(Target is Benchmark+ 0%)*

For the quarter ended 30 June 2016, Legal & General Passive Equity's return of 7.67% under-performed the benchmark return 7.76%.

For the year, Legal & General Passive Equity's return of 11.29% was ahead of the benchmark return of 11.19%.

9 **FIDELITY PENSIONS MANAGEMENT**

Equity - *(Target is Benchmark + 1.75% pa)*

For the quarter to 30 June 2016, Fidelity returned 4.72% and under-performed the benchmark return of 6.53%. The fund under-performed across all equity regions, apart from Developed Asia Ex Japan and Japan.

For the year, Fidelity was behind benchmark and target with a return of 3.78% versus 5.67% for the benchmark. The fund under-performed across all regions apart from Developed Asia Pacific Ex Japan and Emerging Markets.

For the three years, Fidelity was ahead of benchmark but behind target with a return of 8.46% pa versus 6.77% pa for the benchmark.

For the five years, Fidelity was ahead of benchmark and target with a return of 8.64% pa versus 6.08% pa for the benchmark.

For the ten years, Fidelity was ahead of benchmark but behind target with a return of 7.78% pa versus 6.08% pa for the benchmark.

Bond - *(Target is Benchmark + 0.65% pa)*

For the quarter to 30 June 2016, Fidelity returned 6.15% and under-performed its benchmark return of 6.52%. Under-performance occurred across all sectors.

For the year, Fidelity was behind benchmark and target with a return of 10.87% versus 12.13% for the benchmark. Under-performance occurred across all sectors.

For the three years, Fidelity marginally out-performed the benchmark but was below target with a return of 9.02% pa versus 8.98% pa for the benchmark.

For the five years, Fidelity out-performed the benchmark but was below target with a return of 9.04% pa versus 8.70% pa for its benchmark.

10 **GOLDMAN SACHS ASSET MANAGEMENT -** *(Target is Benchmark + 1.25% pa)*

For the quarter ended 30 June 2016, Goldman Sachs' return of 6.56% under-performed the benchmark return of 6.76%. Under-performance occurred across all sectors except for the Government Bonds sector.

For the year, Goldman Sachs was behind benchmark and target with a return of 12.41% versus 12.55% for the benchmark. Under-performance occurred across all sectors except for the Government Bonds sector.

For the three years, Goldman Sachs was behind benchmark and target with a return of 8.99% pa versus 9.05% pa for the benchmark.

For the five years, Goldman Sachs was ahead of benchmark but behind target with a return of 9.09% pa versus 8.70% pa for the benchmark.

For the ten years, Goldman Sachs was ahead of benchmark but behind target with a return of 7.53% pa versus 7.09% pa for the benchmark.

11 **SCHRODER PROPERTY MANAGEMENT -** *(Target is Benchmark + 0.75% pa on a three-year annualised basis)*

For the quarter ended 30 June 2016, Schroder's return of 0.32% was ahead of the benchmark return of 0.12%.

For the year, Schroder was ahead of benchmark with a return of 8.59% versus 7.18% for the benchmark.

For the three years, Schroder was behind benchmark and target with a return of 11.76% pa versus 12.52% pa for the benchmark.

For the five years, Schroder was behind benchmark and target with a return of 7.82% pa versus 8.45% pa for the benchmark.

For the ten years, Schroder was behind benchmark and target with a return of 2.45% pa versus 2.89% pa for the benchmark.

12 **M & G INVESTMENT MANAGEMENT**

For the quarter ended 30 June 2016, M&G's return of 1.08% out-performed the benchmark return of 0.15%.

For the year, M&G was ahead of benchmark with a return of 3.32% versus 0.59% for the benchmark.

For the three years, M&G was ahead of benchmark with a return of 4.17% versus 0.56% for the benchmark.

For the five years, M&G was ahead of benchmark with a return of 4.16% versus 0.65% for the benchmark.

13 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

14 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

15 BACKGROUND PAPERS

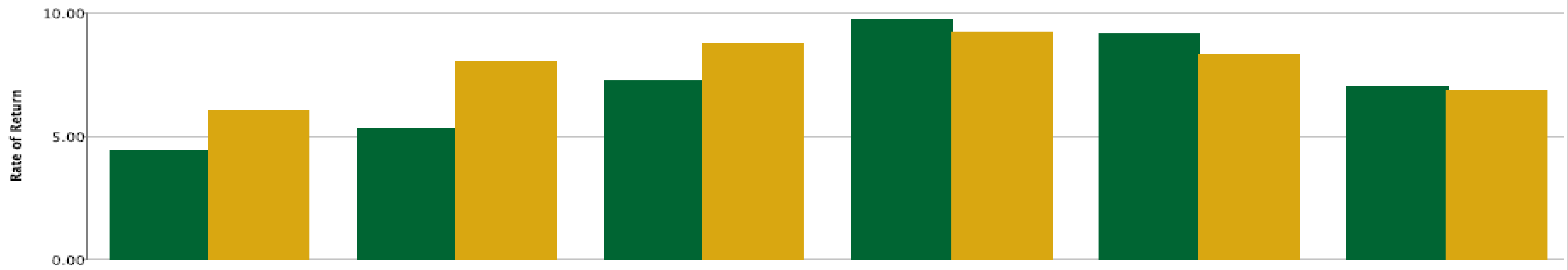
None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

Tayside Pension Fund
30-06-2016

Historical Plan Performance

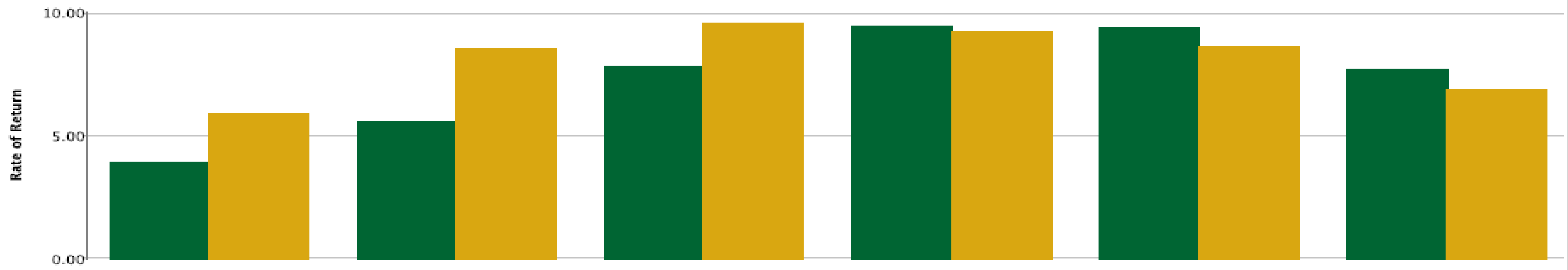
Tayside Main Fund. Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	4.45	5.33	7.23	9.74	9.18	7.03
Index	6.05	8.06	8.79	9.22	8.33	6.85

Index: Tayside Main Fund Benchmark

Tayside Transport Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	3.94	5.54	7.82	9.46	9.41	7.73
Index	5.95	8.58	9.61	9.23	8.60	6.85

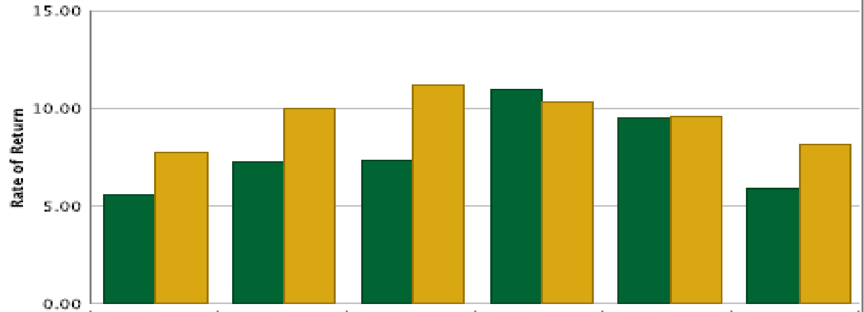
Index: Transport Fund B'Mark

Tayside Main Fund.

30-06-2016

Historical Performance

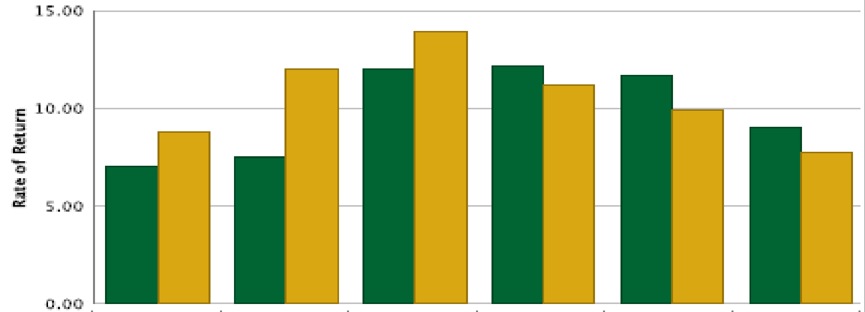
Alliance Bernstein Global Eq Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	5.58	7.22	7.37	10.91	9.52	5.86
Index	7.76	9.97	11.19	10.29	9.56	8.13

Index: Alliance Bernstein Benchmark

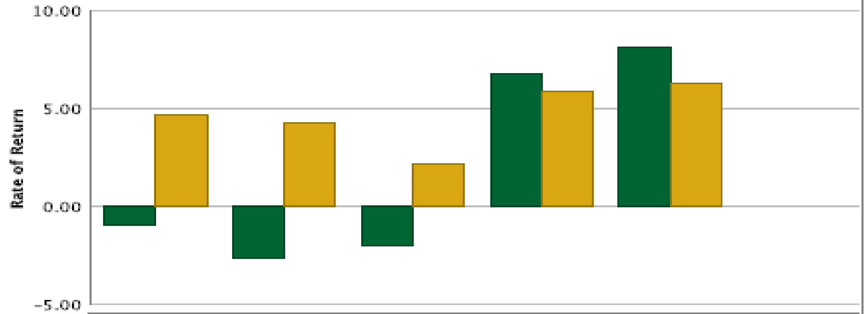
Baillie Gifford Global Eq Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	7.01	7.52	11.99	12.17	11.66	9.03
Index	8.79	11.99	13.92	11.18	9.91	7.75

Index: Baillie Gifford Benchmark

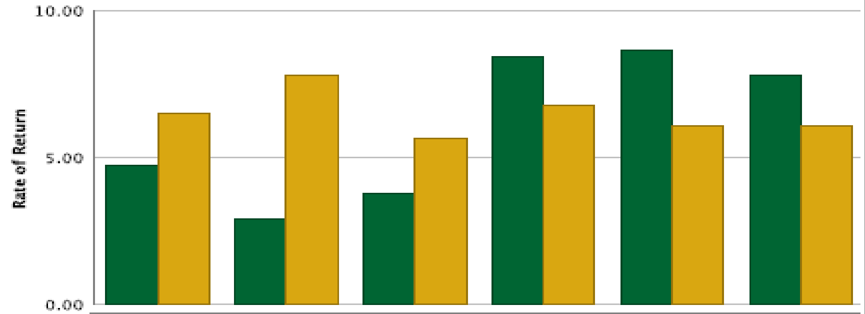
Baillie Gifford UK Eq Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	-0.94	-2.64	-1.98	6.81	8.16	-
Index	4.70	4.27	2.21	5.86	6.27	-

Index: Baillie Gifford UK Equity Benc

Fidelity Equity Fund Total Fund Gross of Fees



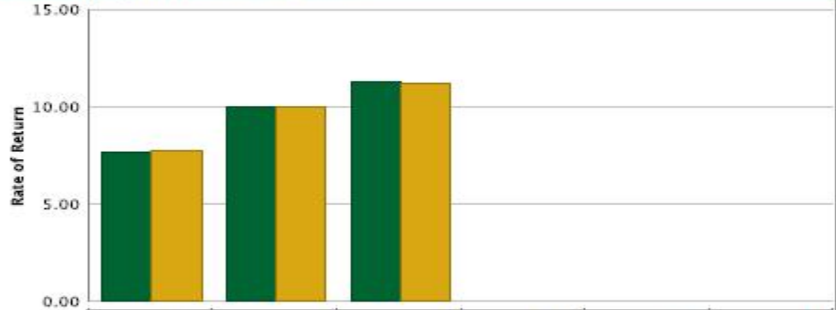
	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	4.72	2.92	3.78	8.46	8.64	7.78
Index	6.53	7.79	5.67	6.77	6.08	6.08

Index: Fidelity Benchmark

Tayside Main Fund.
30-06-2016

Historical Performance

LGIM Passive Equity Total Fund Gross of Fees

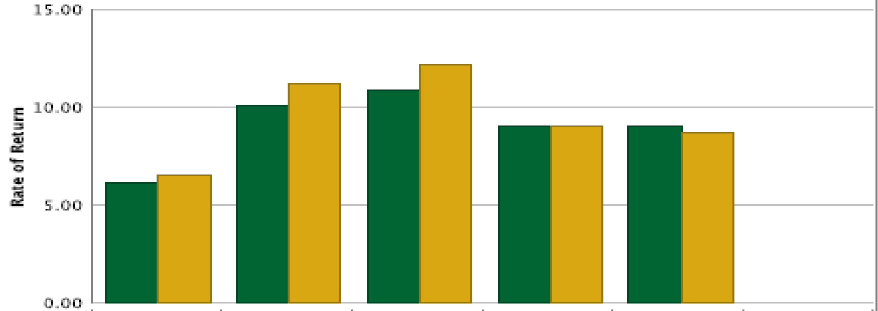


	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	7.67	9.95	11.29	-	-	-
Index	7.76	9.97	11.19	-	-	-

Index: LGIM Passive Benchmark

Historical Performance

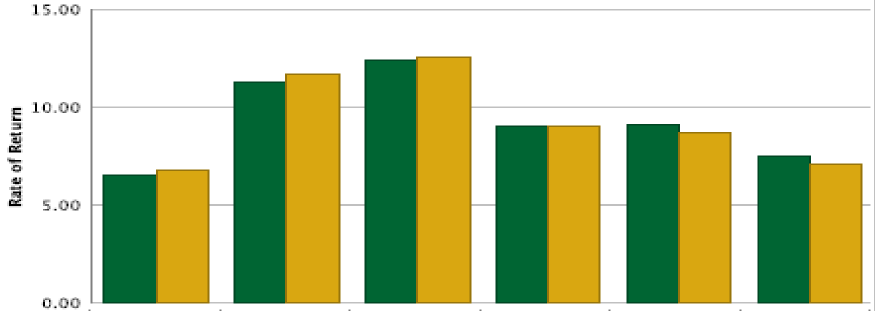
Fidelity Bond Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.15	10.06	10.87	9.02	9.04	-
Index	6.52	11.21	12.13	8.98	8.70	-

Index: Fidelity Bond Benchmark

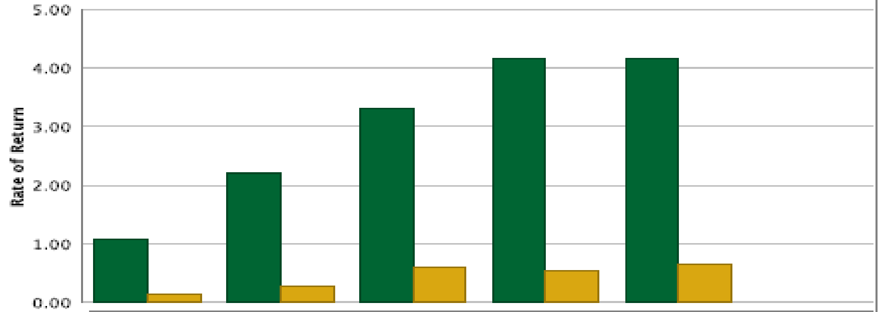
Goldman Sachs Global FI Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.56	11.29	12.41	8.99	9.09	7.53
Index	6.76	11.67	12.55	9.05	8.70	7.09

Index: Goldman Sachs Benchmark

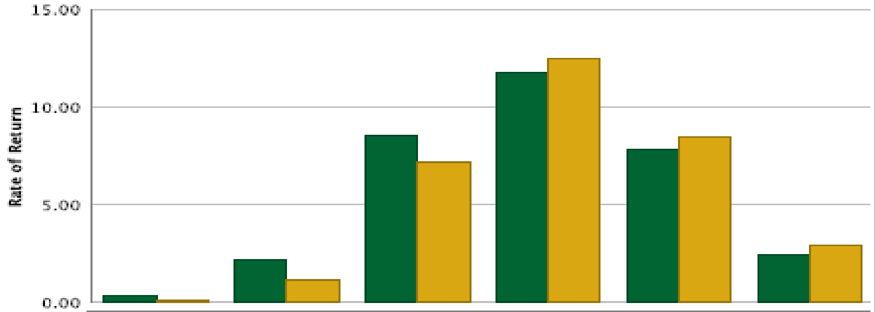
M&G UK Emerging Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	1.08	2.20	3.32	4.17	4.16	-
Index	0.15	0.29	0.59	0.56	0.65	-

Index: 3 Mth LIBOR (FT) GBP

Schroders Property Total Fund Gross of Fees

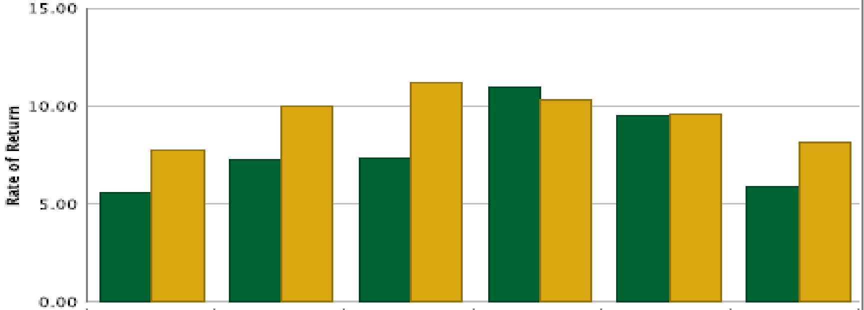


	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	0.32	2.19	8.59	11.76	7.82	2.45
Index	0.12	1.19	7.18	12.52	8.45	2.89

Index: Schroders Benchmark

Historical Performance

Alliance Bernstein Global Eq Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	5.58	7.22	7.37	10.91	9.52	5.86
Index	7.76	9.97	11.19	10.29	9.56	8.13

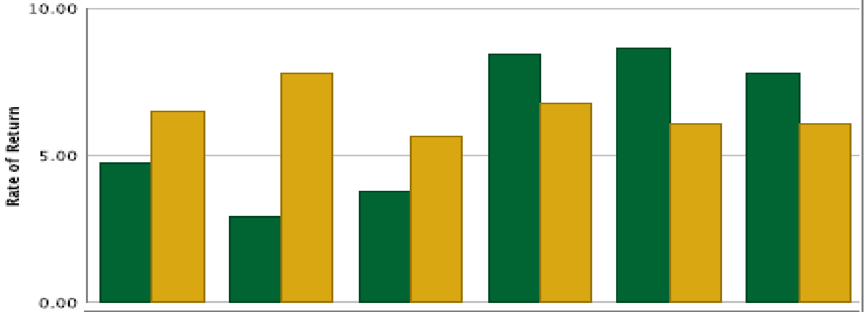
Index: Alliance Bernstein Benchmark

Client Commentary

Alliance Bernstein Global Equity

The Alliance Bernstein Global Equity mandate returned 5.58% over the June quarter and fell -202bps short of its FTSE blended benchmark, which returned 7.76% over the same period. This is the fourth successive quarter of below-benchmark performance for the fund, which has now underperformed its benchmark across six of the most recent twelve calendar quarters. The fund now yields 7.37% and 8.72% pa over the rolling one year and inception to date (June 2003) periods, with underperformance of -344bps and -127bps per annum respectively.

Fidelity Equity Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	4.72	2.92	3.78	8.46	8.64	7.78
Index	6.53	7.79	5.67	6.77	6.08	6.08

Index: Fidelity Benchmark

Client Commentary

Fidelity Equity Fund

The Fidelity Equity mandate yielded 4.72% over Q2 versus 6.53% for its composite benchmark: an underperformance of -171bps on a relative basis. Unhedged currency movements in the Emerging Markets region detracted -125bps from portfolio performance and drove the Q2 underperformance.

Including current quarter results, the mandate has now underperformed its benchmark across two of the four most recent calendar quarters. As a result, rolling one year performance is now -179bps below benchmark (3.78% versus 5.67% for the benchmark). Apart from this, the mandate continues to deliver outperformance across all longer reported performance horizons. Inception to date (December 1997), it now yields 7.14% per annum with an outperformance of +106bps per annum versus the benchmark return.

Tayside Main Fund.
30-06-2016

Historical Performance

Baillie Gifford UK Eq Total Fund Gross of Fees

	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	-0.94	-2.64	-1.98	6.81	8.16	-
Index	4.70	4.27	2.21	5.86	6.27	-

Index: Baillie Gifford UK Equity Benc

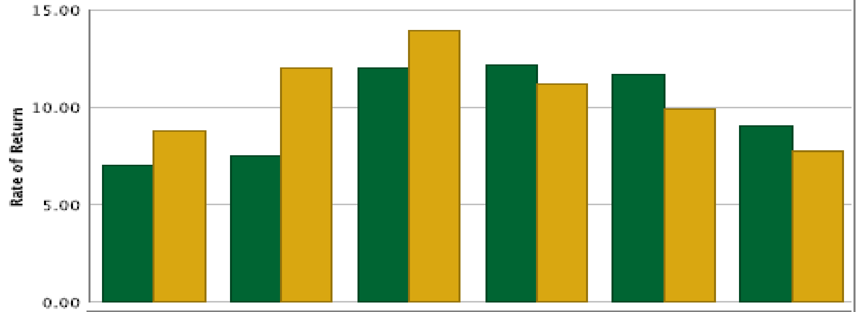
Client Commentary

Baillie Gifford UK Equity

The aforementioned Baillie Gifford UK Equity mandate returned -0.94% over Q2 versus its FTSE All Share benchmark return of 4.70%: an underperformance of -539bps. Stock selection losses across the Financial sector (-119bps) coupled with asset allocation losses from underweighting the strongly performing Oil & Gas sector (-96bps) to derive the Q2 relative loss.

Including Q2 results, the mandate has underperformed the index across two of the most recent four calendar quarters and across four of the most recent twelve. It dips -409bps below benchmark over the rolling one year period (-1.98% versus 2.21% for the benchmark), but apart from this, it continues to beat the index over all longer reported performance horizons. Since its December 2009 inception, the mandate now generates an average annual gain of 10.95% pa versus 7.48% pa for the index: an outperformance of just over three percentage points (+3.23%) per annum.

Baillie Gifford Global Eq Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	7.01	7.52	11.99	12.17	11.66	9.03
Index	8.79	11.99	13.92	11.18	9.91	7.75

Index: Baillie Gifford Benchmark

Client Commentary

Baillie Gifford Global Equity

The Baillie Gifford Global Equity mandate closed the quarter -164bps behind the MSCI All Countries World Index, albeit with a positive return of 7.01% versus 8.79% for the index. Stock selection losses across the North America, Europe Ex UK and UK regions detracted in aggregate -189bps and drove the Q2 relative loss.

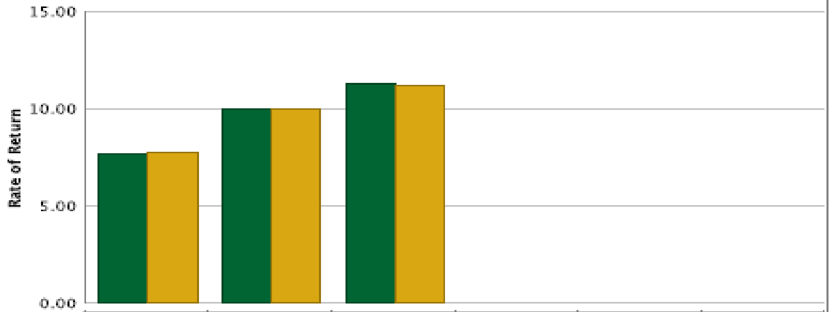
The fund now dips -169bps below benchmark over the rolling one year period (11.99% versus 13.92% for the index), but continues to outperform the index across all longer reported performance periods. Over the rolling three year and inception to date (December 1992) periods, the fund now generates returns of 12.17% and 9.25% per annum and delivers outperformance of +88bps and +52bps per annum respectively, relative to the index return.

Tayside Main Fund.

30-06-2016

Historical Performance

LGIM Passive Equity Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	7.67	9.95	11.29	-	-	-
Index	7.76	9.97	11.19	-	-	-

Index: LGIM Passive Benchmark

Client Commentary

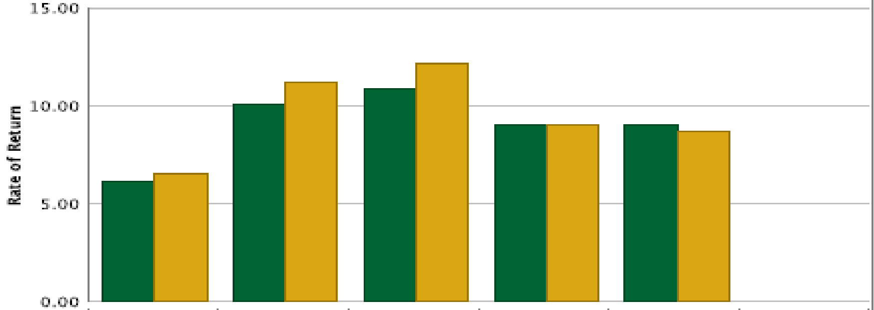
LGIM Passive Equity

This mandate was funded in October 2013 with £230m proceeds from the Alliance Bernstein Global Equity mandate. Over its tenth full quarter of performance, the mandate fell -8bps short of its FTSE blended benchmark, returning 7.67% versus 7.76% for the benchmark. Since its inception, the fund now yields 8.87% pa and marginally outperforms the index by +2bps per annum on a relative annualised basis.

Tayside Main Fund.
30-06-2016

Historical Performance

Fidelity Bond Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.15	10.06	10.87	9.02	9.04	-
Index	6.52	11.21	12.13	8.98	8.70	-

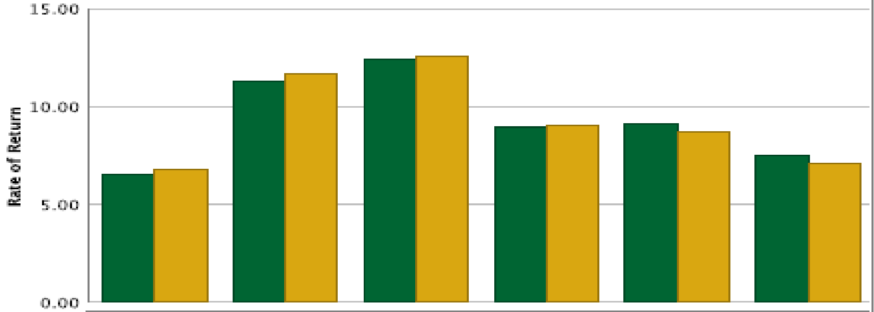
Index: Fidelity Bond Benchmark

Client Commentary

Fidelity Bond Fund

The Fidelity Bond Fund fell -35bps below its composite benchmark over the June quarter, albeit with a positive return of 6.15% versus 6.52% for the benchmark. This is the third successive quarter of underperformance for the fund following three prior quarters of outperformance. Over the rolling one year period, the fund now dips -112bps below benchmark with a return of 10.87% versus 12.13% for the benchmark. Since its January 2007 inception, the fund recovers footing to yield 8.37% with an outperformance of +70bps per annum relative to the benchmark.

Goldman Sachs Global FI Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.56	11.29	12.41	8.99	9.09	7.53
Index	6.76	11.67	12.55	9.05	8.70	7.09

Index: Goldman Sachs Benchmark

Client Commentary

Goldman Sachs Global Bond Fund

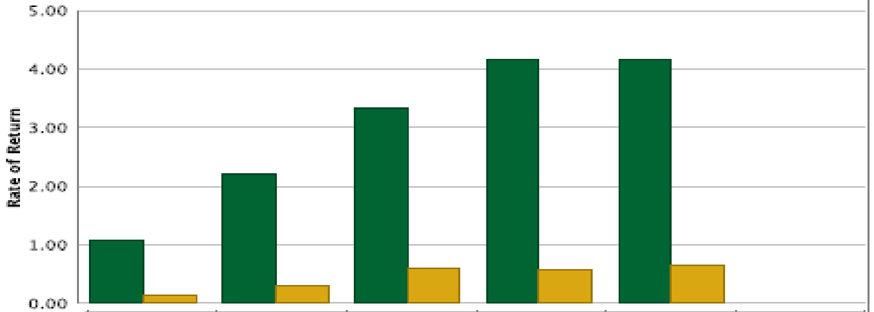
The Goldman Sachs Bond Fund fell -19bps short the wider market over Q2, albeit with a positive return of 6.56% versus 6.76% for its composite benchmark. Including current quarter results, the fund has underperformed its benchmark across three of the four most recent calendar quarters and across seven of the most recent twelve. It now dips -13bps and -6bps below benchmark over the rolling one year (12.41% versus 12.55% for the benchmark) and three year (8.99% pa versus 9.05% pa for the benchmark) periods. Apart from this, it continues to outperform over longer reported horizons with single digit positive returns. Since its June 2003 inception, the fund now generates an average annual return of 7.22% pa and adds, on average, +48bps per annum in excess of the composite benchmark return.

Tayside Main Fund.

30-06-2016

Historical Performance

M&G UK Emerging Fund Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	1.08	2.20	3.32	4.17	4.16	-
Index	0.15	0.29	0.59	0.56	0.65	-

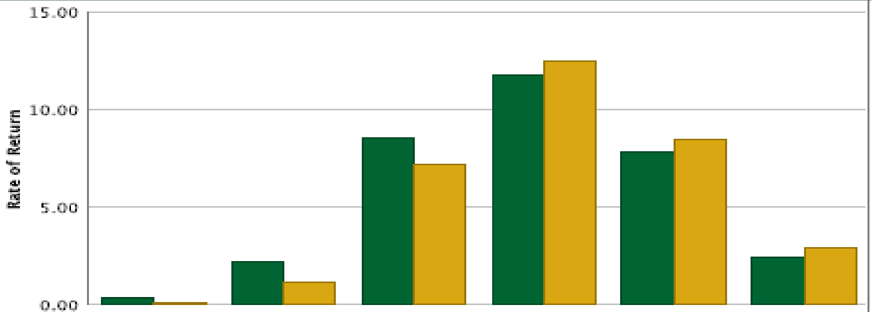
Index: 3 Mth LIBOR (FT) GBP

Client Commentary

M&G UK Emerging Fund

The M&G UK Emerging Fund yielded 1.08% over Q2, versus 0.15% for the 3-Month Sterling LIBOR Index: an outperformance of +93bps. The fund continues to outperform the index over every reported performance horizon with low single digit returns ranging between 3% and 4% per annum. Over the rolling twelve month and inception to date (April 2010) periods, the fund now yields 3.32% and 3.87% pa and outperforms the index by margins of +271bps and +318bps per annum on a relative basis.

Schroders Property Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	0.32	2.19	8.59	11.76	7.82	2.45
Index	0.12	1.19	7.18	12.52	8.45	2.89

Index: Schroders Benchmark

Client Commentary

Schroders Property

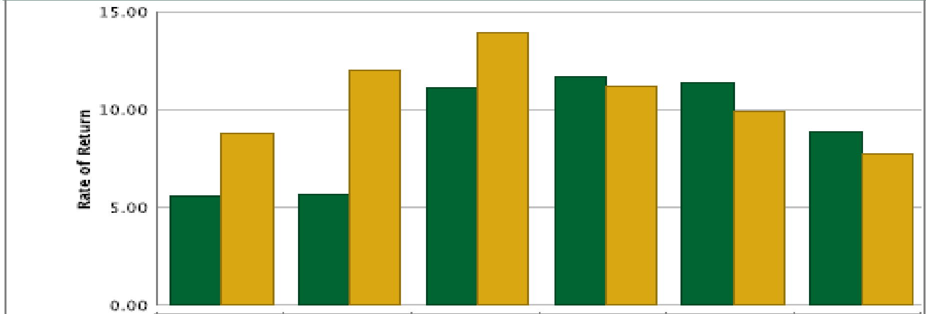
The Schroder Property mandate beat the wider market over Q2, gaining 0.32% in a quarter where the IPD All Balanced Property Funds Weighted Average Index gained only 0.12%. This is the fourth successive quarter of outperformance for the fund following eight prior quarters of below-benchmark performance. As a result, the fund now climbs +132bps above benchmark over the rolling one year period with a return of 8.59% versus 7.18% for the index. It continues to deliver below-benchmark performance across all longer reported performance horizons. Over five years and since its June 1998 inception, the fund now produces average annual returns of 7.82% pa and 7.19% pa and underperforms the index by margins of -58bps per annum and -12bps per annum respectively, on a relative basis.

NB. This fund was measured against the IPD All Balanced Property Median over all periods prior to December 2010.

Tayside Transport Fund
30-06-2016

Historical Performance

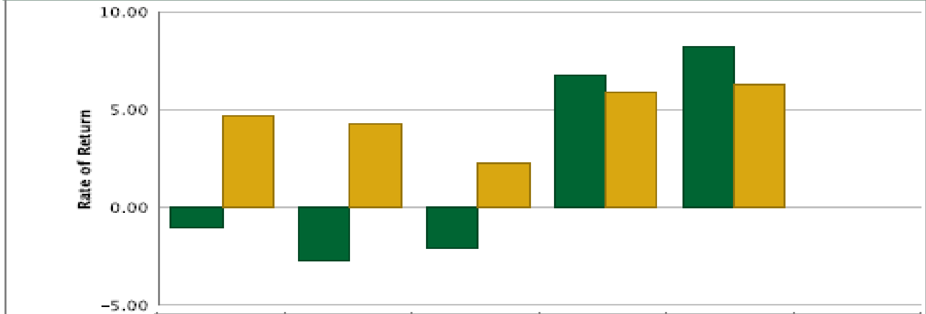
Baillie Gifford Global Equity Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	5.58	5.66	11.09	11.67	11.37	8.88
Index	8.79	11.99	13.92	11.18	9.91	7.75

Index: TAS Baillie Gifford Benchmark

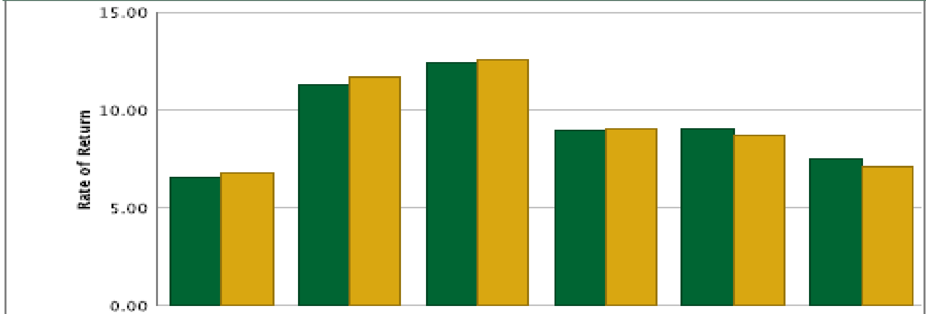
Baillie Gifford UK Equity Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	-1.02	-2.73	-2.06	6.79	8.18	-
Index	4.70	4.27	2.21	5.86	6.27	-

Index: TAS Baillie Gifford UK BM

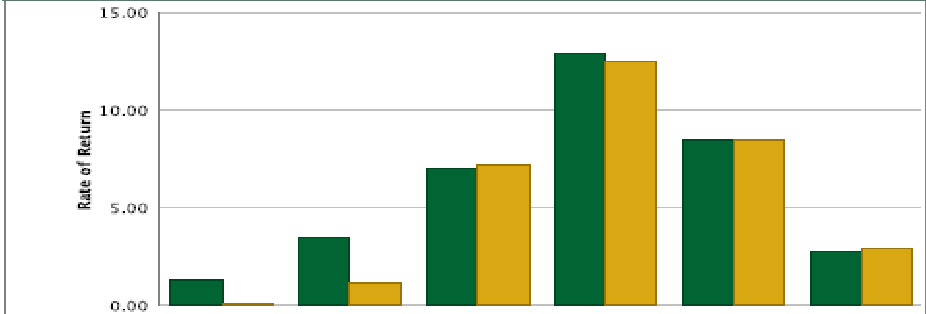
Goldman Sachs Global Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.55	11.30	12.40	8.92	9.05	7.51
Index	6.76	11.67	12.55	9.05	8.70	7.09

Index: TAS Goldman Sachs Benchmark

Schroders RE UT Total Fund Gross of Fees

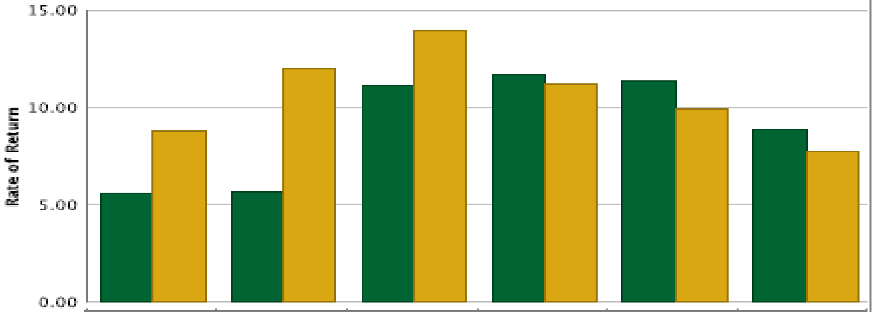


	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	1.29	3.48	7.05	12.93	8.46	2.75
Index	0.12	1.19	7.18	12.52	8.45	2.92

Index: TAS Schroders Benchmark

Historical Performance

Baillie Gifford Global Equity Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	5.58	5.66	11.09	11.67	11.37	8.88
Index	8.79	11.99	13.92	11.18	9.91	7.75

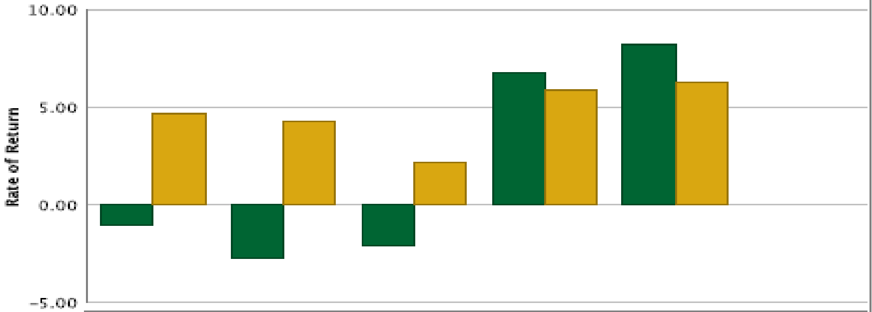
Index: TAS Baillie Gifford Benchmark

Client Commentary

Baillie Gifford Global Equity

The Baillie Gifford Global Equity mandate closed the quarter -296bps behind the MSCI All Countries World Index, albeit with a positive return of 5.58% versus 8.79% for the index. The fund now dips -248bps below benchmark over the rolling one year period (11.09% versus 13.92% for the index), but continues to outperform the index across all longer reported performance periods. Over the rolling three year and inception to date (December 1992) periods, the fund now generates returns of 11.67% pa and 9.18% pa and delivers outperformance of +44bps and +46bps per annum respectively, relative to the index return.

Baillie Gifford UK Equity Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	-1.02	-2.73	-2.06	6.79	8.18	-
Index	4.70	4.27	2.21	5.86	6.27	-

Index: TAS Baillie Gifford UK BM

Client Commentary

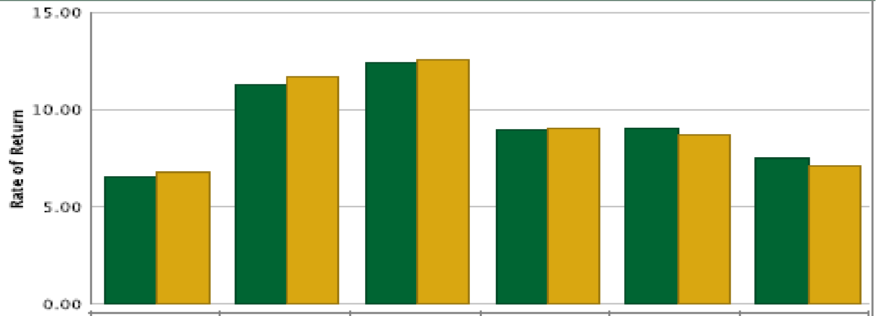
Baillie Gifford UK Equity

The aforementioned Baillie Gifford UK Equity mandate returned -1.02% over Q2 versus its FTSE All Share benchmark return of 4.70%: an underperformance of -546bps. Including Q2 results, the mandate has underperformed the index across two of the most recent four calendar quarters and across four of the most recent twelve. It dips -418bps below benchmark over the rolling one year period (-2.06% versus 2.21% for the benchmark), but apart from this, it continues to beat the index over all longer reported performance horizons. Since its December 2009 inception, the mandate now generates an average annual gain of 10.96% pa versus 7.48% pa for the index: an outperformance of just over three percentage points (+3.24%) per annum.

Tayside Transport Fund
30-06-2016

Historical Performance

Goldman Sachs Global Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	6.55	11.30	12.40	8.92	9.05	7.51
Index	6.76	11.67	12.55	9.05	8.70	7.09

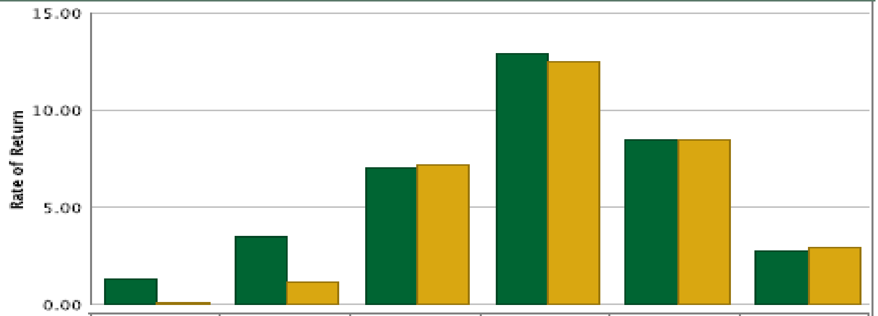
Index: TAS Goldman Sachs Benchmark

Client Commentary

Goldman Sachs Global Bond Fund

The Goldman Sachs Bond Fund fell -34bps short the wider market over Q2, albeit with a positive return of 6.55% versus 6.76% for its composite benchmark. Including current quarter results, the fund has underperformed its benchmark across three of the four most recent calendar quarters and across seven of the most recent twelve. It now dips -13bps and -12bps below benchmark over the rolling one year (12.40% versus 12.55% for the benchmark) and three year (8.92% pa versus 9.05% pa for the benchmark) periods. Apart from this, it continues to outperform over all longer reported horizons with single digit positive returns. Since its June 2003 inception, the fund now generates an average annual return of 7.20% pa and adds, on average, +46bps per annum in excess of the composite benchmark return.

Schroders RE UT Total Fund Gross of Fees



	Three Months	Year to Date	One Year	Three Years	Five Years	Ten Years
Fund	1.29	3.48	7.05	12.93	8.46	2.75
Index	0.12	1.19	7.18	12.52	8.45	2.92

Index: TAS Schroders Benchmark

Client Commentary

Schroders Property

The Schroder Property mandate beat the wider market by +116bps over Q2, gaining 1.29% in a quarter where the IPD All Balanced Property Funds Weighted Average Index gained only 0.12%. Including current quarter results, the fund has beaten its benchmark across only two of the four most recent calendar quarters. As a result, it dips -11bps below index over the rolling one year period (7.05% versus 7.18% for the index). Over the inception to date (June 1998) period, the fund recovers some footing, ending just ahead of benchmark with performance of 7.36% pa versus 7.31% pa for the index.

NB. This fund was measured against the IPD All Balanced Property Median over all periods prior to December 2010.

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ITEM No …10(b)…..…..

NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPHS 4, 6 and 11 OF PART 1 OF SCHEDULE 7A OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

CONFIDENTIAL

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 5 SEPTEMBER 2016**

REPORT ON: **TAYSIDE PENSION FUND**
TAYSIDE TRANSPORT PENSION FUND

SUMMARIES OF INVESTMENTS & TRANSACTIONS
1 APRIL 2016 – 30 JUNE 2016

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **270-2016**

1 PURPOSE OF REPORT

This report reviews the investment activities of the Main Fund's seven Fund Managers for the quarter to 30 June 2016. The Transport Fund shares three of these managers and their transactions are included.

The report summarises the transactions of each Fund Manager and shows the market values of the Main and Transport Fund.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained herein with regard to the activities of the Tayside Pension Fund and Tayside Transport Pension Fund and their Fund Managers.

3 INTRODUCTION

There are seven Fund Managers whose transactions are overseen by a global custodian, Northern Trust. Summaries for each manager are prepared on a quarterly basis.

4 SUMMARY OF INVESTMENT DISTRIBUTION

During the quarter to 30 June 2016, "turnover" figures (purchases and sales as a percentage of the average portfolio valuations) for the Managers were as follows:-

MAIN FUND		**TRANSPORT FUND**	
Baillie Gifford Global	9%	Baillie Gifford Global	11%
Goldman Sachs	27%	Goldman Sachs	23%
Baillie Gifford UK	7%	Baillie Gifford UK	9%
Property Unit Trusts	1%	Property Unit Trust	0%
Alliance Bernstein	31%		
Fidelity	16%		
Fidelity Bond	2%		
M&G Financing Fund	0%		
Legal & General	0%		

QUARTERLY ACTIVITIES

These are shown in the following appendices:-

MAIN FUND

Appendix 1:	Summarises the portfolio investment distribution of each Fund Manager at 31/03/16 and 30/06/16.
Appendices 2 (a) (b) (c) (d) (e) (f) (g) (h):	Summarises the Purchases, Sales, Dividend Income and Movement/Growth for the quarter 01/04/16 to 30/06/16 for each Fund Manager.
Appendix 3:	Summarises the transactions of the Property Unit Trust portfolio from 01/04/16 to 30/06/16.

TRANSPORT FUND

Appendix 4:	Summarises the portfolio investment distribution of each Fund Manager at 31/03/16 and 30/06/16.
Appendices 5 (a) (b) (c) (d):	Summarises the Purchases, Sales, Dividend Income and Movement/Growth for the quarter 01/04/16 to 30/06/16 for each Fund Manager

6 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

7 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

None

MARJORY STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

APPENDIX 1

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENT DISTRIBUTION

TOTAL FUND

	31-03-16		30-06-16		Strategic Benchmark
	£'000	%	£'000	%	%
UNITED KINGDOM					
Equities	717,245	25.3	726,364	24.6	28.0
Bonds	319,254	11.3	335,086	11.4	13.0
Index-Linked	140,472	5.0	153,359	5.2	5.0
	(1,176,971)	(41.6)	(1,214,809)	(41.2)	(46.0)
OVERSEAS					
Equities:					
North America	474,219	16.8	507,537	17.2	17.0
Europe	292,723	10.3	294,162	10.0	9.0
Japan	196,426	6.9	208,037	7.0	7.0
Pacific Basin (excl Japan)	85,086	3.0	96,040	3.2	2.5
Others	193,600	6.8	206,822	7.0	6.5
Bonds	28,980	1.0	33,979	1.2	-
Currency Fund	2,491	0.1	2,442	0.1	-
Index-Linked	4,399	0.2	5,195	0.2	-
	(1,277,924)	(45.1)	(1,354,214)	(45.9)	(42.0)
Financing Fund	9,445	0.3	9,546	0.3	-
Total cash	24,416	0.9	29,310	1.0	-
TOTAL	2,488,756	87.9	2,607,879	88.4	88.0
INTERNALLY MANAGED CASH	2,223	0.1	475	-	-
COMBINED FUND EXCL PROPERTY	2,490,979	88.0	2,608,354	88.4	88.0
TAYSIDE PROPERTY FUND					
Property Investments	335,209	11.8	339,156	11.5	12.0
Cash	5,082	0.2	3,612	0.1	-
OVERALL TOTAL	2,831,270	100.0	2,951,122	100.0	100.0

APPENDIX 2(a)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

ALLIANCE BERNSTEIN

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	89,008	10,650	(13,704)	(3,054)	3,396	89,350	3.8
OVERSEAS							
Equities:							
North America	150,585	29,998	(24,420)	5,578	10,736	166,899	7.1
Europe	80,288	17,577	(18,733)	(1,156)	(2,079)	77,053	(2.6)
Japan	46,889	1,968	(6,029)	(4,061)	5,760	48,588	12.3
Pacific Basin (excl Japan)	7,502	7,564	(3,534)	4,030	397	11,929	5.3
Others	39,167	-	-	-	2,650	41,817	6.8
SHORT TERM ASSETS							
Cash balance	1,729					2,658	
Pending/recoverables	1,481					1,587	
Total cash	3,210	(67,757)	66,420	(1,337)	-	4,245	-
Net income				2,372			
	416,649	0	0	2,372	20,860	439,881	5.6

There is a gross exposure to derivatives of £0m

APPENDIX 2(b)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

BAILLIE GIFFORD GLOBAL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	20,453	-	(2,021)	(2,021)	1,111	19,543	5.4
OVERSEAS							
Equities:							
North America	171,917	9,528	(11,404)	(1,876)	14,485	184,526	8.4
Europe	69,138	2,770	(2,292)	478	(1,516)	68,100	(2.2)
Japan	21,379	1,713	(899)	814	922	23,115	4.3
Pacific Basin (excl Japan)	28,826	959	(1,399)	(440)	2,607	30,993	9.0
Others	36,209	-	(884)	(884)	4,921	40,246	13.6
SHORT TERM ASSETS							
Cash balance	6,924					5,957	
Pending/recoverables	1,084					501	
Total cash	8,008	(14,970)	18,899	3,929	-	6,458	-
Net income				(5,479)			
TOTAL	355,930	0	0	(5,479)	22,530	372,981	4.8

APPENDIX 2(c)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

FIDELITY PENSIONS MANAGEMENT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	203,697	42,057	(33,329)	8,728	24	212,449	-
OVERSEAS							
Equities:							
North America	32,916	1,531	(2,350)	(819)	2,898	34,995	8.8
Europe	101,703	4,739	(3,245)	1,494	363	103,560	0.4
Japan	107,644	141	(5,035)	(4,894)	10,678	113,428	9.9
Pacific Basin (excl Japan)	41,188	549	(1,080)	(531)	3,653	44,310	8.9
Others	99,027	1,870	(3,473)	(1,603)	6,297	103,721	6.4
SHORT TERM ASSETS							
Cash balance	2,821					8,672	
Pending/recoverables	1,395					(3,573)	
Total cash	4,216	(50,887)	48,512	(2,375)	-	5,099	-
Net income				3,258			
	590,391	0	0	3,258	23,913	617,562	4.6

APPENDIX 2(d)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

GOLDMAN SACHS

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Bonds	193,193	4,889	(4,579)	310	9,224	202,727	4.8
Index-Linked	90,726	33,946	(35,620)	(1,674)	10,102	99,154	11.1
OVERSEAS							
Bonds	28,980	6,077	(3,375)	2,702	2,297	33,979	7.9
Currency Fund	2,491	-	-	-	(49)	2,442	(2.0)
Index-Linked	4,399	337	-	337	459	5,195	10.4
SHORT TERM ASSETS							
Cash balance	2,076					1,882	
Pending/recoverables	488					(1,964)	
Total cash	2,564	(45,249)	43,574	(1,675)	-	(82)	-
				(971)			
Net income							
	322,353	0	0	(971)	22,033	343,415	6.5

There is a gross exposure to derivatives of £22.5m.

APPENDIX 2(e)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

FIDELITY BOND PENSIONS MANAGEMENT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Bonds	126,061	1,966	(1,030)	936	5,362	132,359	4.3
Index-Linked	49,746	-	(852)	(852)	5,311	54,205	10.7
SHORT TERM ASSETS							
Cash balance	1					1	
Pending/recoverables	-					-	
Total cash	1	(1,966)	1,882	(84)	-	1	-
Net income				84			
TOTAL	175,808	0	0	84	10,673	186,565	6.1

APPENDIX 2(f)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

BAILLIE GIFFORD UK

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	342,103	11,022	(11,849)	(827)	(7,349)	333,927	(2.1)
SHORT TERM ASSETS							
Cash balance	4,263					12,398	
Pending/recoverables	2,154					1,191	
Total cash	6,417	(11,022)	11,849	827	-	13,589	-
Net income				6,345			
TOTAL	348,520	0	0	6,345	(7,349)	347,516	(0.3)

APPENDIX 2(g)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

M & G UK FINANCING FUND

	(1) VALUATION AT 31-03-16	(2) PURCHASES	(3) SALES	(4) NET INVESTMENT INCL INC REC'D	(5) MOVEMENT \GROWTH	(6) VALUATION AT 30-06-16	(7) % MOVEMENT \GROWTH
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
M & G Financing Fund	9,445	-	-	-	101	9,546	1.1
SHORT TERM ASSETS							
Cash Balance	-					-	
Pending/recoverables	-					-	
Total cash	-	-	-	-	-	-	-
Net income				-			
TOTAL	9,445	0	0	0	101	9,546	1.1

APPENDIX 2(h)

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

LEGAL & GENERAL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	61,984	-	-	-	9,111	71,095	14.7
OVERSEAS							
Equities:							
North America	118,801	-	-	-	2,316	121,117	1.9
Europe	41,594	-	-	-	3,855	45,449	9.3
Japan	20,514	-	-	-	2,392	22,906	11.7
Pacific Basin (excl Japan)	7,570	-	-	-	1,238	8,808	16.4
Others	19,197	-	-	-	1,841	21,038	9.6
SHORT TERM ASSETS							
Cash balance	-					-	
Pending/recoverables	-					-	
Total cash	-	-	-	-	-	-	-
Net income				-			
	269,660	0	0	0	20,753	290,413	7.7

APPENDIX 3

TAYSIDE PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

PROPERTY UNIT TRUST PORTFOLIO

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM PROPERTY INVESTMENTS							
UK Funds:							
Core	238,332	629	-	629	(1,301)	237,660	(0.5)
Value Add	88,758	3,645	-	3,645	679	93,082	0.8
Opportunity	7	-	-	-	(1)	6	(14,3)
OS Funds:							
Europe	8,112	-	-	-	296	8,408	3.6
SHORT TERM ASSETS							
Cash Balance	4,909					3,390	
Pending/recoverables	173					222	
Total Cash	5,082	(4,274)	-	(4,274)	-	3,612	-
Net Income				2,804			
TOTAL	340,291	0	0	2,804	(327)	342,768	0.7

APPENDIX 4

TAYSIDE TRANSPORT PENSION FUND

SUMMARY OF INVESTMENT DISTRIBUTION

TOTAL FUND

	31-03-16		30-06-16		Strategic Benchmark
	£'000	%	£'000	%	%
UNITED KINGDOM					
Equities	15,451	25.5	15,284	24.4	27.5
Bonds	15,015	24.7	15,610	25.0	28.8
Index-Linked	6,928	11.4	7,685	12.3	11.2
	(37,394)	(61.6)	(38,579)	(61.7)	(67.5)
OVERSEAS					
Equities:					
North America	7,657	12.6	7,309	11.7	12.0
Europe	3,016	5.0	2,698	4.3	5.0
Japan	-	-	-	-	2.5
Pacific Basin (excl Japan)	1,531	2.5	1,482	2.4	1.0
Others	2,360	3.9	2,387	3.8	2.0
Bonds	1,982	3.3	2,356	3.8	-
Currency Fund	209	0.3	204	0.3	-
Index-Linked	280	0.5	331	0.5	-
	(17,035)	(28.1)	(16,767)	(26.8)	(22.5)
Total cash	656	1.1	1,003	1.6	-
TOTAL	55,085	90.8	56,349	90.1	90.0
INTERNALLY MANAGED CASH	196	0.3	672	1.1	-
COMBINED FUND EXCL PROPERTY	55,281	91.1	57,021	91.2	90.0
TAYSIDE PROPERTY FUND					
Property Investments	4,854	8.0	4,883	7.8	10.0
Cash	573	0.9	613	1.0	-
OVERALL TOTAL	60,708	100.0	62,517	100.0	100.0

APPENDIX 5(a)

TAYSIDE TRANSPORT PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

BAILLIE GIFFORD GLOBAL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	VALUATION AT 31-03-16	**PURCHASES**	**SALES**	**NET INVESTMENT INCL INC REC'D**	**MOVEMENT \GROWTH**	**VALUATION AT 30-06-16**	**% MOVEMENT \GROWTH**
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Life Fund*	15,626	-	(1,615)	(1,615)	814	14,825	5.2
SHORT TERM ASSETS							
Cash Balance	-					-	
Pending/recoverables	-					-	
Total cash	-	-	1,615	1,615	-	-	-
Net Income				(1,615)			
TOTAL	15,626	0	0	(1,615)	814	14,825	(5.1)

*Although stated above as UK, the fund is invested in global equities as shown in Appendix 4

APPENDIX 5(b)

TAYSIDE TRANSPORT PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

GOLDMAN SACHS

	(1) VALUATION AT 31-03-16	(2) PURCHASES	(3) SALES	(4) NET INVESTMENT INCL INC REC'D	(5) MOVEMENT \GROWTH	(6) VALUATION AT 30-06-16	(7) % MOVEMENT \GROWTH
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Bonds	15,015	319	(432)	(113)	708	15,610	4.7
Index-Linked	6,928	2,345	(2,358)	(13)	770	7,685	11.1
OVERSEAS							
Bonds	1,982	373	(119)	254	120	2,356	6.1
Currency Fund	209	-	-	-	(5)	204	(2.4)
Index-Linked	280	-	-	-	51	331	18.2
SHORT TERM ASSETS							
Cash balance	184					172	
Pending/recoverables	39					(116)	
Total cash	223	(3,037)	2,909	(128)	-	56	-
Net income				(39)			
TOTAL	24,637	0	0	(39)	1,644	26,242	6.5

There is a gross exposure to derivatives of £1.8m

APPENDIX 5(c)

TAYSIDE TRANSPORT PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

BAILLIE GIFFORD UK

	(1) VALUATION AT 31-03-16	(2) PURCHASES	(3) SALES	(4) NET INVESTMENT INCL INC REC'D	(5) MOVEMENT \GROWTH	(6) VALUATION AT 30-06-16	(7) % MOVEMENT \GROWTH
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM							
Equities	14,545	780	(500)	280	(327)	14,498	(2.2)
SHORT TERM ASSETS							
Cash Balance	186					733	
Pending/recoverables	91					51	
Total cash	277	(780)	500	(280)	-	784	-
Net income				787			
TOTAL	14,822	0	0	787	(327)	15,282	3.1

APPENDIX 5(d)

TAYSIDE TRANSPORT PENSION FUND

SUMMARY OF INVESTMENTS AND TRANSACTIONS (01-04-16 TO 30-06-16)

PROPERTY UNIT TRUST PORTFOLIO

	(1) VALUATION AT 31-03-16	(2) PURCHASES	(3) SALES	(4) NET INVESTMENT INCL INC REC'D	(5) MOVEMENT \GROWTH	(6) VALUATION AT 30-06-16	(7) % MOVEMENT \GROWTH
	£'000	£'000	£'000	£'000	£'000	£'000	%
UNITED KINGDOM PROPERTY INVESTMENTS							
UK Funds:							
Property investments	4,854	-	-	-	29	4,883	0.6
SHORT TERM ASSETS							
Cash Balance	573					613	
Pending/recoverables	-					-	
Total cash	573	-	-	-	-	613	-
Net income				40			
TOTAL	5,427	0	0	40	29	5,496	1.3

ITEM No …10(c)…...…..

**NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPHS 4, 6 and 11
OF PART 1 OF SCHEDULE 7A OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

CONFIDENTIAL

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD– 5 SEPTEMBER 2016**

REPORT ON: **QUARTERLY FUNDING REPORT**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **290-2016**

1 PURPOSE OF REPORT

This report reviews the current funding level of the Funds as assessed by Barnett Waddingham, the Fund Actuary.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the report by Barnett Waddingham, in particular the drop in funding level of the transport fund to an estimated 98.7%.

3 FINANCIAL IMPLICATIONS

There are no immediate financial implications; however, the funding level will continue to be monitored as it may affect employer contribution rates from 2018/19 onwards.

4 INTRODUCTION

As part of the Funding Strategy Statement agreed by the Pension Sub-Committee of the Policy and Resources Committee (Article V of the Minute of Meeting of 2 March 2015, Report No 93-2015 refers) there is an obligation to regularly review the funding position of the Funds.

To achieve this, Barnett Waddingham have been asked to provide a quarterly assessment of the overall funding position. This is reported to each meeting of the Committee.

This is an estimate of the funding position and the employer contribution rate. It is purely for indicative purposes and can only approximate the results which would arise from a full valuation. The next full valuation, which sets future contribution rates, will be based on the position as at 31 March 2017, with subsequent changes to contribution rates taking effect from 1 April 2018.

5 RESULTS

	Main Fund @ 99.8%					Transport Fund @ 99.5%				
	Net Reserve		CARE Ongoing % Value of Payroll	Net Reserve Req'd to Maintain Current Contribution		Net Reserve		CARE Ongoing % Value of Payroll	Net Reserve Req'd to Maintain Current Contribution	
Date	Value (£000)	%	%	Value (£000)	%	Value (£000)	%	%	Value (£000)	%
31/03/2014	87,317	3.5%	16.5%	0	0	2,554	4.5%	33.8%	0	0
31/03/2015	242,956	8.5%	17.3%	7,806	0.27%	895	1.4%	40.8%	250	0.4%
30/06/2015	275,429	9.7%	16.7%	3,286	0.12%	2,337	3.8%	39.5%	174	0.3%
30/09/2015	214,013	7.8%	15.9%	-	0.00%	-	0.0%	39.6%	269	0.5%
31/12/2015	297,305	10.7%	15.1%	-	0.00%	983	1.6%	39.3%	144	0.2%
31/03/2016	294,585	10.6%	14.8%	-	0.00%	-303	-0.5%	40.1%	365	0.6%
30/06/2016	303,159	10.5%	15.5%	861	0.03%	-771	-1.3%	41.7%	839	1.4%

The results show the net excess / deficit from the set funding levels at actuarial valuation of 31 March 2014 and the requirements to maintain the current level of employer contribution considering changes to asset values and the ongoing liability costs of the scheme to employers. The net reserve measures the capacity to accommodate market volatility affecting asset values.

These results are calculated by projecting forward from the last valuation allowing for estimated investment returns, pay and pension increases, benefits paid and contributions made and any changes in underlying market conditions. Experience in terms of factors such as retirement or mortality are not updated.

The results are therefore only a broad indication of the current position and can only give an approximate guide to the position.

The smoothed basis is derived from an average position over a six month period.

6 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

7 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

8 BACKGROUND PAPERS

Barnett Waddingham - Tayside Transport Fund Funding Update Report as at 30 June 2016.

Barnett Waddingham - Tayside Pension Fund Funding Update Report as at 30 June 2016.

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

ITEM No …11……….

**NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPHS 4, 6 and 11
OF PART 1 OF SCHEDULE 7A OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973**

CONFIDENTIAL

REPORT TO: **PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 5 SEPTEMBER 2016**

REPORT ON: **AMENDMENT TO EXISITING BOND MANDATE – FIDELITY INVESTMENT MANAGEMENT**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **291-2016**

1 PURPOSE OF REPORT

This report details proposed amendments to the existing fixed income investment mandates within the main fund.

2 RECOMMENDATIONS

The Sub-Committee are asked to approve the following changes in respect of the current Fidelity and Goldman Sachs Asset Management mandates following consultation with investment managers and consultant:

- Rebalance fixed income mandates to an even allocation of 9% of main fund each
- Introduce a segregated mandate per proposal for Fidelity portfolio

3 FINANCIAL IMPLICATIONS

Transition costs within the Fidelity bond mandate are expected to be minimal as the manager will utilise maturities and market opportunities as they arise over a period of time. Potential transition costs from the rebalancing between the GSAM and Fidelity mandates will be minimised through discussion and agreement between GSAM, Fidelity, the officers and the consultant on the method of the transition.

4 BACKGROUND

This report considers the bond strategy recommendations made by the fund's investment consultant AON Hewitt in the Investment Strategy Review (Article X of the Minute of Meeting of the Pension Sub-Committee of the Policy and Resources Committee of 7th March 2016, Report No 102-2016 refers) to remove the constraints of existing bond mandates to enable managers to invest in a wider product mix in terms of characteristics and quality which they believe will provide protection against interest rate rises.

In light of the officer considerations in relation to the recommendation regarding the complexity and diversity of product range, the committee agreed for the officers to consult with investment managers to ascertain how they would propose to adjust their existing mandate to achieve a less constrained investment approach which would enable greater flexibility to respond to market changes and how best to attempt to meet the desired returns on investment determined by actuaries to meet pension liabilities.

5 INVESTMENT MANAGER PROPOSALS & OFFICER CONSIDERATIONS

5.1 FIDELITY INVESTMENT MANAGEMENT

In response to this request, Ian Fishwick, Fidelity's UK Bond Portfolio Manager has proposed a solution which will see the move of the 3 pooled fund investments to a segregated portfolio. The asset allocation would see the simplification of the benchmark (effectively removing the existing aggregate bond allocation) which they believe will enable more effective tactical investment management at an improved return (expected to be 0.1% p.a over existing performance). Appendix 1shows the proposal in full.

Whilst there will be no direct additional cost to this proposal, there will be additional custodial requirements,which will incur minimal additional costs.

5.2 GOLDMAN SACHS ASSET MANAGEMENT

In response to this request, GSAM have initially suggested moving the existing mandate into a UCITS (a mutual pooled fund). The investment manager suggested that this pooled vehicle has investment similarities to the existing Tayside Pension Fund mandate, but it would not be expected to achieve the same absolute returns (estimated 1% less than existing benchmark).

Whilst there will be no additional cost to this proposal, there is no reduction in fees by moving to a mainstream pooled fund and therefore the potential merit of this proposal is not clear.

5.3 OFFICER CONSIDERATION

Following review of the proposals, and analysis of recent performance of both mandates, the officers queried the benefits of the current weighting of the individual mandates:

Fidelity: 6% of main fund
GSAM: 12% of main fund

Advice was sought as to whether the portfolio as a whole would benefit from reweighting the allocation evenly between investment managers as GSAM had been underperforming.

6 INVESTMENT CONSULTANT RESPONSE

The points below summarise the views of Dave Lyons, Head of Public Sector Investment Consulting at AON Hewitt, to both proposals and views on reweighting of investment mandates:

6.1 FIDELITY PROPOSAL

- An expected 0.1% per annum increase in the relative performance objective, for the same fee, within a largely segregated bond portfolio is viewed as a good proposal.
- Within this, AON are supportive of the retention of the index linked gilts, which is consistent with the recommendations in the two reports to the Sub-Committee earlier this year.
- AON are also supportive of the removal of the Aggregate bonds element and of the expansion of the corporate bond element for the same reasons.

- In delivering this, the move to a mostly segregated approach (i.e. except for the pooled ILG holding within the broader portfolio) provides for greater security and future flexibility.
- The parameters that Fidelity propose offer further opportunities for them to seek to add value / protect capital, depending on their outlook for bond markets, to the potential benefit of the main fund.
- These parameters are reasonable compared to the current situation, although AON note that up to 20% in high yield is a material proposed development. Therefore, it will be important to monitor the extent to which Fidelity take advantage of this potential allocation, as high yield will be the most volatile and potentially illiquid component of the overall Fidelity bond portfolio. However, the increased future flexibility offered by the new broadly segregated approach (as Fidelity note) offers the opportunity to amend this parameter (and indeed any of the others) at a future date if desired.
- The proposed ILG holding for Fidelity is approximately 15% less (at the manager level) than that which AON proposed in their Investment Strategy Review / Annual Investment Review reports. However, Fidelity's proposal is to seek to deliver approximately 0.1% per annum additional performance and an increased allocation to ILGs would be broadly incompatible with this increased objective, or at least likely make it more difficult to achieve. Therefore, overall, AON are comfortable with Fidelity's proposal.
- Ian Fishwick is well respected for his ability and experience as a bond manager.
- AON's summary comments on Fidelity bonds from their Annual Investment Review remain valid and are as follows, "We [AON] continue to believe that Fidelity's fixed income teams are well resourced with good leadership under Ian Fishwick, and overall the quality of staff is good. Fund managers have considerable latitude with respect to investment positions in managing their funds but the investment process is well structured with investment ideas being drawn from across the fixed income team."

6.2 **GSAM PROPOSAL**

The investment proposal by GSAM would not achieve existing investment objectives, nor would it present any potential efficiencies in terms of fee reductions.

6.3 **OFFICER CONSIDERATION**

A modest rebalancing from a relatively more aggressive expected performance objective (GSAM) to a relatively less aggressive one (Fidelity) would potentially reduce the overall expected return of the aggregate investment strategy, although not significantly given the proportions to be rebalanced and the overall weighting to bonds. It is also important to note that GSAM's expected performance has not been achieved, and by their own admission, they may find this too challenging. Thus, the proposal to adjust the allocation of fixed income evenly between the two investment managers is recommended to the committee by the officers and the investment adviser.

7 **POLICY IMPLICATIONS**

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

6 **CONSULTATION**

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **26 AUGUST 2016**

Appendix 1

Tayside Pension Fund – Bond Mandate

Further to our recent discussions, this short paper sets out Fidelity's proposals for meeting the Tayside Pension Fund requirements to move away from the current asset allocation (see below), to a less constrained bond mandate.

We believe that the solution outlined below is both simple and cost effective to implement, and will also help "future proof" the Bond portfolio and allow greater flexibility going forward.

Current Mandate

Fund	Benchmark	Weight (%)
UK Corporate Bonds	BofA Merrill Lynch Euro-Sterling Index	46.0
UK Aggregate Bonds	iBoxx Composite (50% Gilt, 50% Non-Gilt)	26.0
Index-linked Gilts	FTSE A UK Index-Linked Gilts Over 5 Year	28.0

Performance Objective: To outperform the benchmark by 0.65% gross of fees per annum over a rolling three year period.

Proposed Mandate

Structure

Further to our discussions, we would suggest moving the bond mandate to a segregated portfolio. There would be no change to the current investment management charge (0.20% per annum) and we would look to minimise the cost of transition where possible. The additional cost for the Tayside Pension Fund would be the ongoing fee for the custodial arrangements.

The Index-linked Gilts ("ILGs") would continue to be managed within the existing pooled fund arrangement, but held as a separate entity within the segregated portfolio. All other bonds would be held directly within the segregated portfolio. We would suggest that the allocation to ILGs would continue to be managed within tolerance of +/- 5%, as at present.

Benchmark

We would suggest moving the benchmark for all conventional bonds to the BofA Merrill Lynch Euro-Sterling Index.

This would allow a higher yield to be achieved without significantly changing the interest rate profile of this element of the portfolio. This also has the advantage of retaining a good level of liquidity, allowing greater flexibility in future.

At 31 March 2016 the duration of the BofA Merrill Lynch Euro-Sterling Index was 7.9 years, with a yield of 2.9%. (This compares to a composite yield of c.2.6% for the current conventional bond mandate).

Segregated Portfolio	**Benchmark**	**Weight (%)**
Conventional Bonds	Merrill Lynch Sterling All Non-Gilts	72.0
Index-linked Gilts	FTSE A UK Index-Linked Gilts Over 5 Year	28.0

These proportions could easily be adjusted in future, following recommendations from advisers and in accordance with the requirements of the fund.

Parameters

A further increase in expected return can be achieved by giving scope to deviate from the benchmark within the following tolerances:

Duration	+/- 2 years
Non-Sterling	Max. 50% (Hedged)
Gilts	Max. 50%
High Yield	Max. 20%

Performance Objective

We would propose increasing the out-performance target to 0.75% gross of fees per annum over a rolling three year period.

Summary

As discussed at the meeting on 9th May, the outlook for UK interest rates is uncertain. The flexibility we are proposing and the use of the broad-based benchmark, with scope for 'off-benchmark' allocations, will allow us to implement our views in an efficient and cost-effective manner.

As per the analysis we carried out on the Fund's future cash flow requirements, there will be a requirement for a reliable income stream to be generated from the portfolio in the coming years. Again, the flexibility of the vehicle and the proposed parameters around the benchmark will allow this to be achieved efficiently and without incurring significant costs.

May 2016

Fidelity INTERNATIONAL